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LETTER FROM THE COMMISSIONER

October 1, 2005

The Honorable Mitchell E. Daniels, Jr.
Governor, State of Indiana
State House, Room 206
Indianapolis, Indiana 46204-2797

Dear Governor Daniels:

Attached is the Indiana Department of Revenue's 15th annual report, covering Fiscal Year 2005 (July 1, 2004 - June 30, 2005), as required by Indiana Code 6-8.1-14-3*. Also as required by IC 6-8.1-3-2.5 and IC 6-8.1-3-2.6, I attest that the amount of revenue collected and tax liability assessed has not been considered in the evaluation of any employee; nor have production quotas or goals been imposed or suggested for employees based on the number of cases closed.

As you will see from this report, the Department rolled out several new programs during FY05, including:

- A revised, more user-friendly Web site
- Online bulk-form ordering
- A new electronic method for businesses to manage their state tax accounts
- A new multipurpose consolidated sales-tax-exemption certificate that combined previous forms.

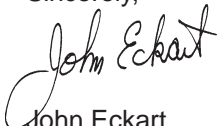
In the Department's collections efforts, two programs helped boost collections from past due tax accounts:

- INdebt, the program that posted delinquent taxpayer names to the Internet beginning July 1, 2004, brought in over \$2 million dollars in its first two months, alone
- Expansion of the Department's electronic transmission of tax warrants to and between collection agencies, county clerks and sheriffs' departments throughout the state saved the state \$3 million dollars as of November 1, 2004.

In Fiscal Year 2006, the new administration that arrived during the latter half of FY05, is planning even further improvements in the following areas:

- **Department organization** -- Restructuring the Department to make it more efficient and more effective, to promote better customer focus and provide a one-stop-shop for taxpayers' questions.
- **Customer focus** -- Giving taxpayers answers to their questions in a timely and consistent manner with an emphasis on respect and professionalism toward taxpayers, treating them as our customers and our reason for being here.
- **People** -- To fully carry out the emphasis on customer focus, the Department will strive to ensure that the right people are in the right jobs, which will promote greater efficiency and effectiveness. Professional development will also be a key part of efforts to achieve this goal.

Sincerely,


John Eckart
Commissioner

*To reference pertinent Indiana laws, see Page 67 of this report.

INTERNET ACCESS

Access to forms, information bulletins and directives, tax publications, e-mail, I-File (the PC-Filing Program), etc. www.IN.gov/dor/

TAX HELP TELEPHONE NUMBERS

AUTOMATED INFORMATION LINE

Check on the status of refunds; prerecorded tax topics; tax liability balances -- (317) 233-4018

COLLECTION/LIABILITY

INQUIRIES -- (317) 232-2165

CORPORATE TAX INFORMATION --

(317) 615-2662

INDIANA TAXFAX SYSTEM -- Call from the telephone portion of your FAX machine to retrieve tax forms and information bulletins. Available 24 hours a day -- (317) 233-2329

INDIVIDUAL INCOME TAX

INFORMATION -- (317) 232-2240

MOTOR CARRIER SERVICES

"One Stop Shop" -- (317) 615-7200

SALES TAX INFORMATION --

(317) 233-4015

TAX FORMS ORDER LINE

Available 24 hours a day --
(317) 615-2581

TELEPHONE DEVICE

FOR THE DEAF (TDDY) --
(317) 232-4952

WITHHOLDING TAX

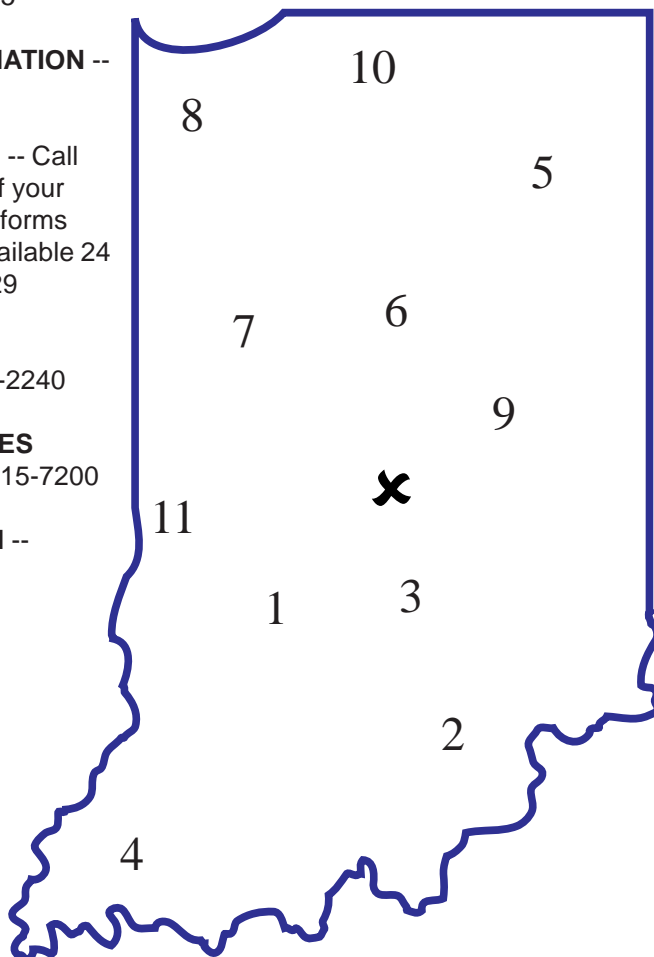
INFORMATION --
(317) 233-4016

TAX HELP



INDIANAPOLIS (MAIN OFFICE)

Indiana Government Center
North, Room N105
100 N. Senate Avenue
Indianapolis, IN 46204
(317) 232-2240



DISTRICT OFFICES

1) Bloomington

410 Landmark Avenue
Bloomington, IN 47403
(812) 339-1119

2) Clarksville

Physical Location

1446 Horn Street
Clarksville, IN 47129
(812) 282-7729

Mailing Address

P.O. Box 3249
Clarksville, IN 47131-3249

3) Columbus

3138 N. National Road
Columbus, IN 47201
(812) 376-3049

4) Evansville

500 S. Green River Rd.
Goodwill Building
Suite 202
Evansville, IN 47715
(812) 479-9261

5) Fort Wayne

1415 Magnavox Way
Suite 100
Fort Wayne, IN 46804
(260) 436-5663

6) Kokomo

117 E. Superior St.
Kokomo, IN 46901
(765) 457-0525

7) Lafayette

100 Executive Dr.
Suite B
Lafayette, IN 47905
(765) 448-6626

8) Merrillville

8368 Louisiana Ave.
Suite A
Merrillville, IN 46410
(219) 769-4267

9) Muncie

3640 N. Briarwood Lane
Suite 5
Muncie, IN 47304
(765) 289-6196

10) South Bend

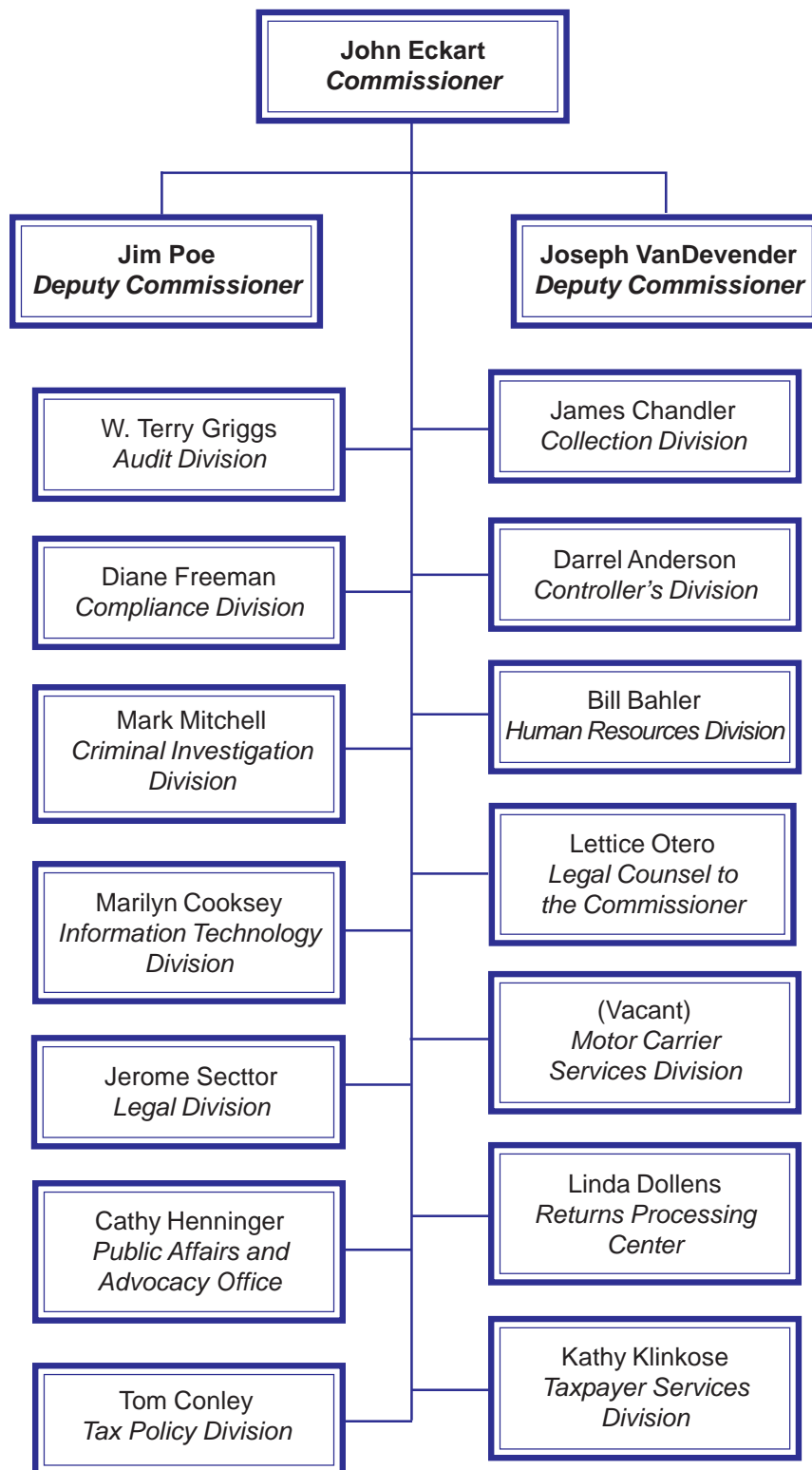
1025 Widener Lane, Suite B
South Bend, IN 46614
(574) 291-8270

11) Terre Haute

30 N. 8th St., 3rd Floor
Terre Haute, IN 47807
(812) 235-6046

DEPARTMENTAL ORGANIZATIONAL STRUCTURE

(Current as of June 30, 2005)



ABOUT THE INDIANA DEPARTMENT OF REVENUE

Mission Statement

The Indiana Department of Revenue will administer the tax laws of the state of Indiana in an equitable and courteous manner to promote the highest degree of public trust and voluntary compliance.

Motto

“Committed to public trust and service.”

Department Divisions

Administration

Sections: Commissioner, Deputy Commissioner, General Counsel to the Commissioner and Director of Operations.

The four main components of this division assist in overseeing the entire agency.

Audit

Sections: Audit Billing/Inquiries, Audit Review, Audit Selection, Sampling/Projection Agreements, Operations, Special Tax, Field Auditing, Field Investigations and Taxpayer Services in District Offices.

This division promotes voluntary compliance throughout the state and the country in all Indiana tax areas through quality examinations. It is also responsible for the Department’s 11 District Offices, which are located throughout Indiana.

Collections

Sections: Titles/Licensing, Agent/Taxpayer Contact, Telephone Pursuit, Correspondence and Research/Payment Processing

This division provides centralized management in the collection of delinquent tax liabilities.

Compliance

Sections: Individual Withholding, Charity Gaming and Nonprofit, Sales, Fuel and Utility Refund, Aeronautic and Bankruptcy.

Income and Withholding, Charity Gaming and Nonprofit, Refund Center, Corporate Account Maintenance, Fiduciary, Bankruptcy,

Responsibilities: Aircraft, Bankruptcy, Charity Gaming, Consumer Use Tax, Corporate Dissolution Billings, Corporate Federal Audit Adjustments, Corporate Reinstatements, Discovery Projects, Doubtful Exemption User Billings, Fiduciary Tax, Fuel Tax Refunds, Individual Income, Letters of Good Standing, Motor Vehicle Sales Tax, Neighborhood Assistance Credits, Nonprofit, Notice of Administration, Prepaid Sales Tax, Refund Specials, Responsible Officer Billings, Sales Tax Refunds, Tax Clearances, Utility Sales Tax Exemption Applications and Voluntary Compliance Program.

This division researches, develops, and implements various projects that identify non-filing, noncomplying taxpayers for the following taxes: corporate, individual, sales/use, food and beverage, county innkeepers, aircraft, fuel and withholding. All information for registration of aircraft and nonprofit organizations is conducted by this division, as well as the approval and issuance of all charity gaming licenses (e.g., raffles, bingo, door prizes, pull-tabs and punchboards). Applications for exemption from sales tax related to various types of utilities consumed by taxpayers are reviewed for determination of exempt status and rate of exemption allowed. Records are researched for bankrupt individuals and businesses to identify tax liabilities and unfiled tax returns for the purpose of submitting “proof of claims” to the various bankruptcy courts. Outreach through charity gaming educational seminars and projects is conducted in an effort to promote voluntary compliance by Indiana taxpayers.

Controller

Sections: Budget Analyst, Business Administration, Accounting/Counties, Cigarette Tax and Other Tobacco Products, Mail Services and Cashiers.

This division handles budgeting and purchasing for the Department under the guidance of the Controller. Other responsibilities include depositing of tax revenues, preparing appropriate reports and conducting all related banking functions. The Controller's Office administers those taxes collected by the state and returned to the county of origin. This division also handles the inventory and sale of cigarette tax stamps.

Criminal Investigation

Sections: Case and Data Management, Charity Gaming Enforcement, Controlled Substance Excise Tax, Private Employment Agency Licensing, Internal Affairs, Motor Fuel Fraud, Motor Vehicle Excise Tax and Fraud Investigations/Audit.

The division's primary mission is to detect fraud and prosecute tax evaders. It is responsible for conducting investigations into alleged violations of Indiana tax laws and determining civil liabilities or presenting evidence for criminal prosecution in an effort to increase voluntary compliance.

The majority of these investigations involve the collection and failure to remit trust taxes. The division also monitors charity gaming operations throughout the state and works in conjunction with the Indiana State Police to monitor the unlawful use of dyed fuel on the highways. The division also cooperates with prosecuting attorneys throughout the state in assessing the controlled substance excise tax on those illegally possessing certain drugs and monitors and enforces the collection of the Motor Vehicle Excise Tax from Hoosiers who plate their vehicles outside Indiana. This money is returned to the county where the taxpayer legally resides. The Department conducts background investigations on all employment prospects and investigates alleged employee wrongdoing. The division is also responsible for the investigation and licensing of Private Employment Agencies.

Information Technology

This division supports the Department's mission, goals and service delivery efforts by creating and administering computerized tax processing systems for the other divisions of the Department. This division provides communication network and LAN administration, software and desktop support, network security, computer-based training and webmaster services to Department staff throughout the state. This division oversees the development, testing and ongoing changes to the Department's major tax administration and processing systems. It also monitors system output to ensure standards of quality and to assist in problem identification.

This division operates with a goal of: providing tax processing systems that are increasingly easier to use; constantly improving efficiency and service to the taxpayer; and maintaining secure and confidential records, while minimizing taxpayer burden.

Legal

Sections: Appeals, Litigation, Inheritance Tax and Protest Review.

This division includes the Department's legal staff, which oversees the appeals process from an original tax protest to the Indiana Tax Court. This division also contains the Inheritance Tax Section, which collects tax on all taxable transfers of property resulting from the death of an Indiana resident, or a nonresident decedent, with real or tangible personal property located in Indiana.

Motor Carrier Services

Sections: Customer Service Center, Motor Carrier Road and Fuel Use Taxes, International Vehicle Registration Plan, Safety & Insurance Registrations, Commercial Driver's Licensing (CDL), Oversized & Overweight Vehicle Permitting and Accounting and Fund Distribution.

This division provides all of the above tax and registration services to the motor carrier community. The division also collects and distributes revenue to other states and Canadian provinces in accordance with international agreements. Equally important is the effort to work in partnership with the Federal Motor Carrier Safety Admin-

istration and other stakeholders to promote and increase safe highway operations, resulting in fewer commercial carrier accidents and fatalities.

The Motor Carrier Services Division operates a “One-Stop Shop” for the trucking community, which is located at the Ameriplex Office Park on the southwest side of Indianapolis.

Network Security and Administration

Sections: Administration, Intra/Internet Development, Network/Server Development, Software Support, Local Area Network (LAN)/Client Support and Application Development.

This division supports the Department's mission by providing a reliable and secure LAN/WAN (Local Area Network/Wide Area Network) environment. The division accomplishes this goal by providing client-server application development, network and LAN administration, software and desktop support, network security and computer-based training and webmaster services.

Personnel

Sections: Employment Processing and Compensation, Payroll and Benefits, Training, Employee Relations and Special Projects.

The Personnel Division addresses all issues relating to employment for the Department's 904 employees. These include recruitment, the application process, employment and classification, compensation, testing, training, payroll, performance appraisals, new employee orientation, intermittent applications, interviewing, internal and job bank postings, and summer internship program.

Other employee matters include: employee relations and support, employee benefits, employment verification, leaves of absence, non-merit rules, standardized policies, performance appraisal, progressive discipline, resignations, salary calculations, seniority list, parking, unemployment and workers compensation claims, wellness, health and safety issues and labor relations.

Also covered are state and federal regulations, such as Affirmative Action/Equal Employment Opportunity (AA/EEO), Americans with Disabilities Act (ADA), Family and Medical Leave, and sexual harassment, in addition to organizational development, systems training, staff development and training records.

Public Affairs and Advocacy Office

Public Affairs Section: Form Development and Revisions, Outreach Education, Practitioner Services, Tax Preparation Software approval, Indiana TaxFax, Web content for the Department's Web site and media relations and publications.

This section administers tax form revision and editing, internal and external education, provides instruction to over 1,500 volunteers statewide (who help over 75,000 elderly, low income and special needs Hoosiers with free tax return preparation), approves software companies and their Indiana tax preparation software and the Indiana TaxFax form distribution system. It also coordinates content for the Department's Web site, handles media inquiries and publicity and edits both the Department's annual and charity gaming reports and internal and external publications for tax professionals, nonprofit organizations and employees.

The Indiana Tax Advocacy Office: Hardships, Offers-in-Compromise, Complaints and Problem Resolution.

This section provides an avenue for the successful resolution of taxpayer problems that have not been resolved through normal channels. Hardships, offers-in-compromise and taxpayer complaints are also researched and resolved through the Advocacy program. The Advocate serves to facilitate resolution as a final resource for the taxpayer.

Quality Assurance

This division oversees the development, testing and ongoing changes to the Department's Returns Processing System (RPS). It also monitors system output to ensure standards of quality and to assist in problem identification.

Returns Processing Center (RPC)

Sections: A/R Payments, Batch and Edit, Unidentified Checks, Check Processing, Low Volume Data Entry, Electronic Funds Transfer, Forms Processing, Mail Open and Sort, Mail Out, Forms Order, Print Shop, Logistic Support, Data Capture, Corporate Income Tax, Individual Income Tax, System Services, Fuel Tax, Environmental Tax, Return Mail, Business Communication, LAN Support and Administration and Administrative Support.

The RPC receives, processes and posts nearly all of the returns and payments received by the Department to taxpayer accounts in the Returns Processing System (RPS). In addition, this area works with several taxes for which the records are maintained on stand-alone PC systems, which are in turn maintained by the Department or other agencies for which the taxes are collected. This area works with several other agencies, such as Workforce Development, Environmental Management and Department of Natural Resources, to collect various taxes and fees for those agencies.

The Returns Processing Center assures that all returns are posted in an accurate and timely manner which then allows the rest of the Department to access the data they need to complete their job functions. The RPC works with other divisions within the Department to see that retention records are established and adhered to, prints various tax forms and related information for the Department and, when time permits, for other state agencies.

The Forms Order Section provides assistance to accountants, taxpayers, banks and anyone else who needs either a single tax return or a supply of tax forms. Taxpayer assistance to Corporate, Sales, Withholding, Fuel, Environmental, Cigarette and Alcoholic Beverage tax accounts are handled by this area. The RPC continues to search for new technology and new ways to use existing technology for faster and better ways to receive, process and post the tax returns received by Indiana Department of Revenue.

Tax Policy

Sections: Policy Research, Fiscal Analysis, Technical Tax Research and Legislative Affairs.

This division works primarily with legislative efforts, serving as a legislative liaison for the Indiana General Assembly. It issues rulings, policy directives and information bulletins and helps to determine the correct interpretation of the law. This division also provides tax statistics to both federal and state agencies as well as to other states.

Taxpayer Services

Sections: Telephone Section, Correspondence, Research and Support and Taxpayer Assistance.

This division provides walk-in and telephone assistance to Indiana taxpayers and handles e-mail and written correspondence. It combines many direct contact functions generally involving three major tax types: individual income, sales and withholding taxes. It also handles general collection inquiries.

A YEAR IN REVIEW: FISCAL YEAR 2005

July 1, 2004 - June 30, 2005

NEWS NEWS NEWS NEWS NEWS NEWS NEWS NEWS NEWS NEWS NEWS

•**INdebt** -- On **July 1, 2004**, as a result of a new law, the Department began posting on the Internet the names and last-known addresses of delinquent taxpayers. Called INdebt, the program includes tax warrants of more than \$1,000 that are between two and 10 years old. New warrants that meet the criteria are posted monthly.

The Department's Information Technology staff modified and adapted the Department's large integrated tax administration and processing system to handle past and overdue tax liabilities and developed the Internet-based application to allow taxpayers to view their past-due tax obligations, as well as to pay them over the Internet.

The Department had previously sent out notifications to over 29,000 delinquent Hoosier taxpayers; and, before INdebt officially began, it collected over \$1,000,000 in back taxes. Within the first several weeks after launch, the INdebt Web site experienced approximately 1,000,000 hits and over 150,000 searches. By September 2004, approximately 27,000 delinquent individual and corporate taxpayer names had been posted, and over \$2,000,000 had been collected. In addition, more than \$926,000 in payment plans were established.

•**Motor Vehicle Sales Tax Laws** -- As a result of legislation passed by the Indiana General Assembly, on **July 1, 2004**, the Department began allowing a credit of other states' sales/use taxes against Indiana's 6 percent use tax due upon registration and/or titling in Indiana of motor vehicles, trailers, watercraft and aircraft purchased in other states. The change eliminated the previous double taxation.

New legislation also repealed the sales tax exemption for the same items purchased in Indiana and immediately registered/titled outside of the state. Indiana dealers had to start collecting Indiana's 6 percent sales tax on all retail transactions. The good news for the buyers in both Indiana and any of the other 45 "reciprocal" states is that they will now be able to include the state sales tax into their financing arrangements with dealers.

•**Revised Web site** -- In **July 2004**, the Department launched its new, more user-friendly Web site, and new sections were added to make it easier to find information on both individual and business taxes. Also, a News Room was added where the media can view all Department press releases. The Web site is updated daily and new information is posted on the "Up to the Minute" page, as well as in the appropriate section.

•**Charity Gaming Seminars** — The Department's Compliance Division administers all charity gaming activities in Indiana. Officials from its Charity Gaming and Nonprofit Sections hit the road **in the fall** of 2004 for their annual series of seminars to explain legislative changes, new forms, new rules and new regulations to nonprofit organizations that either currently conduct charity gaming activities in Indiana or would like to. Two of the three scheduled seminars were held in Lafayette and Jasper; however, the third in Muncie had to be cancelled due to pending litigation.

•**Online Forms Ordering** — A new, easy-to-use online bulk forms ordering system of current year state tax forms went online in FY05. The process is free to tax professionals, libraries, banks, U.S. Post Offices, and all others who need forms in bulk, as long as they have registered for an account with the Department. The electronic system is more convenient, more efficient, more cost effective and provides a much shorter turnaround time for both professionals and their clients.

Each form can still be downloaded from the Department's Web site or obtained via e-mail, telephone or FAX, though the Department's TaxFax service will be "retired" after December 31, 2005. Traditional paper forms will continue to be mailed out at the normal time each year, and tax professionals will continue to receive the special order forms in their tax school packets in the fall.

•**INtax** -- In **January 2005**, INtax, a new method of managing State tax accounts via the Internet for Indiana businesses was rolled out, eliminating the need for paper sales and withholding tax coupons. INtax increases ease, availability (24-hours-a-day, seven-days-a-week), security and speed, while reducing expense -- for both taxpayers and the State. Several news releases were sent out, both before and after INtax began. In addition, an interview was conducted on HANK-FM radio station and a 30-second audio Public Service Announcement went out to radio stations throughout the state.

The INtax project aspires to increase voluntary collections, while allowing Hoosier taxpayers to: securely file sales and withholding taxes, pay sales and withholding taxes, receive immediate confirmation, review their tax payment histories, monitor their accounts, schedule automatic payments from their banking accounts and correspond securely with the Department.

By end of FY05 (June 30, 2005), over \$82,000,000 in sales and withholding taxes had been reported and paid by over 5,700 businesses.

•**Revised Sales Tax Exemption Certificate** -- In **May 2005**, the Department issued a new revised General Sales Tax Exemption Certificate (ST-105) that consolidated seven exemption forms into one multipurpose form. The new form enables out-of-state businesses with no physical presence or activity in Indiana to purchase tangible personal property from Indiana businesses exempt from sales tax without having to register with the Indiana Department of Revenue (as long as such purchases meet Indiana statutory exemptions).

•**Online Oversize/Overweight Vehicle Permitting System** -- By the **end of FY05**, the Department's Motor Carrier Services Division had begun testing a new Web-based electronic oversize/overweight (OS/OW) vehicle permitting system, which will become fully functional in FY06. This new online system will allow OS/OW permits to be obtained online 24-hours-a-day, seven-days-a-week. Also, new payment methods, as well as annual and 90-day permits were added, and upgrades were made to the division's voice response unit.

•**Electronic Tax Warrants** -- The Department announced that Indiana had saved over \$5,000,000 with a program begun in 2001 to transmit tax warrants electronically, instead of by the traditional paper method. By the end of FY05, 39 county clerks' offices, 22 county sheriffs' offices and seven collection attorneys had helped to make paper tax warrants a thing of the past. Also, contracts made with collection agencies required electronic transmission. Thirteen of the counties have both the clerk and sheriff on board.

Counties save money by reducing the amount of staffing hours needed when processing paper tax warrants. The total savings calculated was \$5,171,797, which included 3,895,522 pieces of paper (warrants, warrant status letters and satisfaction of liens) not handled by employees and not mailed through the U.S. Postal Service -- but electronically transmitted between the Department and the participating county clerks, sheriffs' offices and collection attorneys .

End of an Era -- TaxFax Retiring

The Department decided that the TaxFax would be retired at the end of calendar year 2005 (December 31), due to its steadily declining usage and the steadily increasing usage of the Department's Web site for downloading forms.

During Fiscal Year 2005, the TaxFax system handled orders from 5,997 callers needing state tax forms and/or instruction booklets. This was a 24 percent drop from the 7,900 orders filled in Fiscal Year 2004.

(In addition to downloading state tax forms from the Web, forms can also be ordered by telephone and by e-mail.)

PERSONNEL

Employees

The Indiana Department of Revenue had 971 employees as of June 30, 2005.

Benefits

Open enrollment was held in November and December 2004 and became effective January 2, 2005. Employees were eligible to make changes in their health, dental, vision, taxsaver option and re-enroll in the flexible spending accounts.

Employment Process

183 vacancies were posted, with 3,992 applicants applying for the various positions.

93 employees were hired in full time positions.

139 intermittent employees were hired.

13 full-time employees retired.

167 resignations, terminations, or deaths of employees occurred, including both full-time and intermittent employees.

Compensation

The Personnel Division submitted 17 compensation requests to the State Personnel Department for reclassification of employees.

TAXPAYER SERVICES

Taxpayer Services Division assisted the following numbers of taxpayers in Fiscal Year 2005:

• telephone calls	337,081
• letters	42,469
• e-mail messages	21,641
• walk-in taxpayers	14,149

TAXPAYER BILL OF RIGHTS AND RESPONSIBILITIES **Public Law 332-1989 (Special Session)**

All Indiana taxpayers have certain rights and responsibilities that correspond to the Indiana tax laws. The Taxpayer Bill of Rights sets forth these rights and responsibilities for Indiana Taxpayers:

- | | |
|-------------|--|
| I | Quality taxpayer service |
| II | Taxpayer Advocate to help taxpayers in the preservation of their rights |
| III | Taxpayer education and information |
| IV | A fair collection process |
| V | Appointed hearing time and representation |
| VI | Demand notices |
| VII | Warrants for collection of tax |
| VIII | Judgement liens against property |
| I X | Annual public hearing and Department report |
| X | Taxpayer responsibilities |

2005 LEGISLATIVE SUMMARY

NEW AND AMENDED STATUTES

SYNOPSIS OF LEGISLATION PASSED BY THE 2005 INDIANA GENERAL ASSEMBLY AFFECTING THE INDIANA DEPARTMENT OF REVENUE

(The legislation listed below is in numerical order by code citations affected. Legislation in order of Enrolled Acts may be found on our Web site at www.in.gov/dor/reference/legal/pdfs/summary2005.pdf.)

CODE CITATIONS AFFECTED

CHARITY GAMING (IC 4-32)

IC 4-32-6-4.5 (effective upon passage) to define a “bona fide business organization as an organization that is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. The organizations include business leagues and chambers of commerce.

IC 4-32-16-6.4 (effective upon passage) defines a “licensed supply” as bingo supplies, pull tabs, punchboards and tip boards.

IC 4-32-6-20 (effective upon passage) adds a bona fide business organization to the list of entities that are considered qualified organizations.

IC 4-32-6-20.2 (effective upon passage) adds a definition of “qualified personal property” to mean personal property leased by an organization to conduct an event on a body of water and used to conduct a raffle where the property is marked with a number corresponding to the number of a chance purchased in a raffle, with the winner of the raffle determined by the number on the item that crosses the finish line first. This is also commonly referred to as a “duck race.”

IC 4-32-7-3 (effective upon passage) provides that the Department may not adopt a rule that requires a qualified organization to use a minimum percentage of the qualified organization’s gross receipts for related activities for the lawful purpose of the organization. The Department is also precluded from adopting a rule to limit the rent that may be charged to a qualified organization to lease property for a “duck race.”

IC 4-32-9-9.5 (effective upon passage) is added to authorize the commissioner to issue an annual door prize license to a qualified organization if the organization pays the fee set by the Department, and meets other standards set by the Department.

IC 4-32-9-16 (effective upon passage) deletes the provision that allowed the Department to adopt a rule to set the allowable expenditures of a qualified organization. Adds a provision that determines the net proceeds from an allowable event to be the gross receipts from the event, minus the value of the prizes awarded at the event, the price paid for licensed supplies dispensed at the event, and the amount of the license fee attributable to the allowable event.

IC 4-32-9-20 (effective upon passage) adds a provision that the lease of qualified personal property for a “duck race” cannot be based on the revenue generated from the event, and the Department may not limit the amount of rent charged to the qualified organization for the qualified personal property.

IC 4-32-9-37 (effective upon passage) provides that a person that leases qualified personal property to an organization is not considered to be an operator or worker for the event.

IC 4-32-9-38 (effective upon passage) provides that the Department may not deny a license to an organization based on the amount of rent charged to the organization for the lease of qualified personal property.

IC 4-32-11-3 (effective upon passage) provides that the annual license fee for an annual door prize license is not based on the fee structure that relates to the renewal fee based on gross proceeds derived from the previous license.

SEA 140 NON CODE SECTION (effective upon passage) provides that 45 IAC 18-3-7 and 45 IAC 18-3-8 are void. These rules concerned the use of proceeds by the qualified organization.

INDIANA ECONOMIC DEVELOPMENT CORPORATION (IEDC) (IC 5-28)

IC 5-28-6 (effective July 1, 2005) is added to create a Global Commerce Center Pilot Program. The program is to be established in the Eastern Indiana Economic Development District by the Indiana Economic Development Corporation. Once a district is designated, the district shall send to the Department a copy of the designation of the global commerce center, a list of all employers in the center and the street names and range of street numbers of each street in the global commerce center. The district shall update the list before July 1 of each year. The Department within 60 days of receiving the list shall determine the income tax base period amount. The base period amount is the total of local option income taxes paid by employees employed in the territory for the fiscal year that proceeds the date on which the global commerce center was designated. Before October 1 of each year, the Department shall calculate the income tax incremental amount for the preceding state fiscal year. The global commerce center expires 15 years after it is designated by the corporation.

SALES AND USE TAX (IC 6-2.5)

IC 6-2.5-4-5 (effective upon passage) is amended to provide that a business that expands its operations to an economic development area that is or formerly was a military base is entitled to a sales tax exemption for separately metered utility services.

IC 6-2.5-4-5 (effective January 1, 2006) is amended to expand the sales tax exemption for utilities consumed in a qualified base enhancement area. For a business located in a qualified base enhancement area, the business must satisfy at least one of the following criteria: The business is a participating business in the technology transfer program conducted by the qualified military base, the business is a United States Department of Defense contractor, or the business and the qualified military base have a mutually beneficial relationship.

IC 6-2.5-5-20 (effective July 1, 2005) is amended to clarify that tobacco is not a food item.

IC 6-2.5-5-28 (effective July 1, 2005) is added to define tobacco as cigarettes, cigars, chewing or pipe tobacco or any other item that contains tobacco for purposes of the Streamlined Sales and Use Tax Agreement.

IC 6-2.5-5-37 (effective July 1, 2005) is amended to expand the sales tax exemption for equipment owned or leased by a professional racing team to include any part of the vehicle excluding tires and accessories.

IC 6-2.5-5-39 (effective July 1, 2005) is added to define a cargo trailer and recreational vehicle, and to exempt from the sales tax aircraft, recreational vehicles and cargo trailers with a gross vehicle weight rating of 2,200 pounds. The exemption only applies to aircraft, recreational vehicles and cargo trailers that are purchased by a non resident and are going to be registered in another state or territory within 30 days. The exemption for aircraft is 100 percent of the tax that would be due for a sale to an Indiana resident. The exemption for a cargo trailer or recreational vehicle is the difference between the amount of tax that the item would be charged if the item was purchased by an Indiana resident and the amount that would be charged in the purchaser's state of residence. This equates to the purchaser paying the amount of tax that would be charged in the purchaser's home state to the state of Indiana at the time the cargo trailer or recreational vehicle is purchased. The act requires the selling dealership to have on file within 60 days of purchase, a copy of the purchaser's title or registration or pay to the

state the amount of the exemption. The purchaser must complete an affidavit stating the purchaser's intent to register the trailer or vehicle in another state. The Department is required to provide the form of the affidavit and the information to the seller so that the correct amount of tax is collected at the time of the sale.

IC 6-2.5-5-40 (effective July 1, 2005) is added to provide that effective January 1, 2007, any research and development equipment is exempt from the sales tax.

IC 6-2.5-6-16 (effective July 1, 2005) is added to provide that research and development equipment that is purchased is exempt from 50 percent of the sales tax imposed. The taxpayer will file a claim for refund for tax paid on equipment purchased between July 1, 2005 and June 30, 2007.

IC 6-2.5-11-10 (effective July 1, 2005) allows a collection allowance that is provided by member states to sellers or certified service providers in exchange for collecting the sales and use tax under the Streamlined Sales and Use Tax Agreement.

ADJUSTED GROSS INCOME TAX (IC 6-3)

IC 6-3-1-3.5; IC 6-3-1-11; and IC 6-3-1-33 (effective January 1, 2005) are amended to update the Indiana Code to coincide with the Internal Revenue Code in effect on January 1, 2005. There are exceptions to the update, and they include the increased bonus depreciation allowance, the increase for Section 179 expensing is capped at \$25,000, and the deduction allowed for domestic production activities under Section 199 of the Internal Revenue Code is not included.

IC 6-3-2-1.5 (effective upon passage) is amended to provide that a business that expands its operations to an economic development area that is or formerly was a military base is entitled to a corporate income tax rate of 5 percent instead of 8.5 percent for income attributable to business in the area.

IC 6-3-2-1.5 (effective January 1, 2006) is amended to include a corporation located in a qualified military base enhancement area as a corporation eligible for the five percent corporate adjusted gross income tax rate if it also satisfies at least one of the three criteria for the sales tax: 1) the business is a participating business in the technology transfer program conducted by the qualified military base, 2) the business is a United States Department of Defense contractor, or 3) the business and the qualified military base have a mutually beneficial relationship.

INCOME TAX CREDITS (IC 6-3.1)

IC 6-3.1-1-3 (effective January 1, 2005) is added to provide that a taxpayer may not be granted more than one tax credit for the same project. The credits that are included are the enterprise zone investment cost credit, industrial recovery tax credit, military base recovery tax credit, military base investment cost credit, capital investment tax credit, community revitalization enhancement district tax credit, venture capital investment tax credit, and the Hoosier business investment tax credit.

IC 6-3.1-4-1 (effective July 1, 2005) is amended to clarify that the base amount for the research expense credit is Indiana qualified research expenses and gross receipts attributable to Indiana in the calculation of the taxpayer's fixed base percentage and average annual gross receipts.

IC 6-3.1-4-2 (effective July 1, 2005) is amended to provide that for qualified research expenses incurred after December 31, 2007, the credit is equal to the taxpayer's qualified research expense for the taxable year minus the base period amount, multiplied by 15 percent or \$1,000,000 whichever is less, and plus 10 percent of the excess over \$1,000,000.

IC 6-3.1-4-2.5 (effective January 1, 2006) is added to provide that a business engaged in the production of civilian and military jet propulsion systems, is a United States Department of Defense contractor, employs at least 3,000 people in Indiana, and pays more than 400 percent of the hourly minimum wage, may elect an

alternative method of calculating the research expense credit. The taxpayer may elect to calculate the credit in the following manner. The credit will equal a percentage determined by the Indiana Economic Development Corporation not to exceed 10 percent multiplied by the taxpayer's Indiana qualified research expenses for the taxable year minus 50 percent of the taxpayer's average Indiana qualified research expenses for the three preceding taxable years.

IC 6-3.1-4-3 (effective January 1, 2006) is amended to provide that the research expense credit carry forward is reduced from 15 years to 10 years.

IC 6-3.1-7-7 (effective July 1, 2005) is added which requires the Department to report to the Indiana Economic Development Corporation the number and amount of enterprise zone loan interest credits claimed per enterprise zone. These figures are reported annually based on the number of returns processed during the previous fiscal year.

IC 6-3.1-11.5-17 (effective upon passage) amends the Military Base Recovery Cost Credit to include a current or former military base in an economic development area as a vacant military base facility.

IC 6-3.1-11.6-2 (effective upon passage) amends the Military Base Investment Cost Credit to include a current or former military base in an economic development area as a qualified area.

IC 6-3.1-11.6-2 (effective January 1, 2006) is amended to include a qualified military base enhancement area as qualified for the military base investment cost credit.

IC 6-3.1-11.6-9 (effective January 1, 2006) is amended to provide that a taxpayer making a qualified investment in a business located in a qualified military base enhancement area must make the investment in a business that meets one of the following criteria: The business must be a participant in the technology transfer program conducted by the qualified military base, the business is a United States Department of Defense contractor, or the business and the qualified military base have a mutually beneficial relationship.

IC 6-3.1-13-1; IC 6-3.1-13-12; and IC 6-3.1-26-2 (effective upon passage) are repealed. The code cites repeal the EDGE Board and its approval of the Economic Development for a Growing Economy Tax Credit and the Hoosier Business Investment Tax Credit.

IC 6-3.1-13-15 (effective July 1, 2005) is amended to provide that if the business is located in a CRED district or a certified technology park, the local legislative body has adopted an ordinance recommending the granting of a credit amount that is at least equal to the credit amount provided in the EDGE agreement.

IC 6-3.1-13-15.5 (effective July 1, 2005) is amended to eliminate the requirement in EDGE for retention that at least one other state is competing for the project or the relocation of the jobs. Reduces the number of jobs from 200 to 75 that the applicant is required to employ in Indiana to be eligible for the retention credit. Reduces the requirement for a specific local match of \$1.50 for every \$3.00 of credit awarded and changes it to an amount determined by the Indiana economic development corporation. The amendment provides that the average wages that must be paid will be based on wages paid by the business's NAICS code and not the average wage paid in the county.

IC 6-3.1 13-18 (effective July 1, 2005) is amended to provide that EDGE for retention will be extended to June 30, 2007 from its current expiration date of June 30, 2005.

IC 6-3.1-13-19 (effective July 1, 2005) is amended to reduce the requirement that a business maintain its Indiana operations for twice as many years as the number of years that credits were granted, to two years after the last credit year in the agreement.

HEA 1001, SECTION 246 (effective July 1, 2005) provides that the amount of credits claimed during 2001, 2002, and 2003 for the Lake County income tax credit for property taxes paid (under IC 6-3.1-20) will be reimbursed to the property tax replacement fund during Fiscal Years 2006, 2007 and 2008.

IC 6-3.1-21-10 (effective July 1, 2005) is amended to extend the earned income credit to December 31, 2011. It was set to expire on December 31, 2005.

IC 6-3.1-23-4 (effective January 1, 2005) is amended to expand the use of the voluntary remediation tax credit to include all listed taxes and not just the sales tax, adjusted gross income tax, financial institutions tax, and insurance premium tax.

IC 6-3.1-23-5 (effective January 1, 2005) is amended to remove the requirement that the county legislative body determine the value of the remediation and determine that the taxpayer never had an ownership interest in the land that is contaminated.

IC 6-3.1-23-6 (effective January 1, 2005) is amended to increase the amount of credit available for each brownfield site from \$100,000 to \$200,000. The calculation of the credit is changed to 100 percent of the qualified investment up to \$100,000 and 50 percent of the qualified investment that exceeds \$100,000.

IC 6-3.1-23-13 (effective January 1, 2005) is amended to require the taxpayer to submit the certification received from the Indiana development finance authority when they are claiming the credit.

IC 6-3.1-23-15 (effective January 1, 2005) is amended to increase the amount of total credits allowed in a fiscal year from \$1,000,000 to \$2,000,000.

IC 6-3.1-23-16 (effective January 1, 2005) is amended to extend the tax credit from December 31, 2005 to December 31, 2007.

IC 6-3.1-24-3 (effective May 15, 2005) is amended concerning the venture capital investment tax credit to provide that a financial institution that has a valid mortgage or security agreement in an organization shall not be eligible for the venture capital investment tax credit.

IC 6-3.1-24-7 (effective February 9, 2005) is amended to include professional motor racing teams as a qualified business for purposes of the venture capital investment tax credit.

IC 6-3.1-24-9 (effective February 9, 2005) is amended to increase the annual cap on the amount of venture capital investment tax credits allowed from \$10,000,000 to \$12,500,000.

IC 6-3.1-24-12 (effective January 1, 2006) is amended to provide that the venture capital investment tax credit can only be carried forward for five years.

IC 6-3.1-26-5.5 (effective May 15, 2005) is added to make motion picture or audio production for theatrical, television, or other media viewing or as a television pilot eligible for the Hoosier business investment tax credit.

IC 6-3.1-26-8 (effective May 15, 2005) is amended to provide that distribution, transportation, or logistical distribution equipment and facilities will be a qualified investment for purposes of the Hoosier business investment tax credit.

IC 6-3.1-26-10 (effective January 1, 2005) is repealed. This section provided the definition of state tax liability growth for purposes of the Hoosier business investment tax credit.

IC 6-3.1-26-14 (effective May 15, 2005) is amended to reduce the percentage of qualified investment eligible for the tax credit from 30 percent to 10 percent. The act removes the provision that the credit is the lesser of the percentage of qualified investment or the tax liability growth.

IC 6-3.1-26-15 (effective May 15, 2005) is amended to provide that the credit carry forward will be determined by the Indiana Economic Development Corporation, but not to exceed nine years.

IC 6-3.1-26-18 (effective May 15, 2005) is amended to remove the requirement that the applicant has to have conducted business in Indiana for at least one year.

IC 6-3.1-27-2.5 (effective January 1, 2005) is added to define “corporation” as the Indiana Economic Development Corporation.

IC 6-3.1-27-3.2 (effective January 1, 2005) is added to define “distribute at retail” to mean selling at retail to an end user in Indiana.

IC 6-3.1-27-3.5 (effective January 1, 2005) is added to define “facility” as a facility that is located in Indiana and is for the production of biodiesel, blended biodiesel that is blended with biodiesel produced at a facility located in Indiana, or a facility that is for the production of both biodiesel and blended biodiesel.

IC 6-3.1-27-8 (effective January 1, 2005) is amended to provide that the corporation must certify facilities that are eligible for the biodiesel production credit. Eliminates a provision that the credit will be reduced by any credit or subsidy that the taxpayer is entitled to receive from the federal government for the production of biodiesel. The act raises the cap for the biodiesel production credit to \$3,000,000 per taxpayer for all taxable years. This amount can be adjusted to \$5,000,000 with the approval of the corporation.

IC 6-3.1-27-9 (effective January 1, 2005) is amended to provide that the blended biodiesel credit must be approved by the corporation, and the cap for a producer of blended biodiesel is increased to \$3,000,000 per taxpayer for all taxable years. The act eliminates the provision that the credit shall be reduced by any credit or subsidy that the taxpayer is entitled to receive from the federal government for the blending of biodiesel.

IC 6-3.1-27-9.5 (effective January 1, 2005) is added to provide that the total credits awarded for biodiesel production, biodiesel blending, and ethanol production may not exceed \$20,000,000 for all taxpayers for all taxable years.

IC 6-3.1-27-10 (effective January 1, 2005) is amended to provide that a dealer of blended biodiesel who sells at retail is permitted to claim the credit for biodiesel distributed at retail and not just sold through a metered pump. The credit expires on December 31, 2006.

IC 6-3.1-27-12 (effective January 1, 2005) is amended that the credit can only be carried forward for six years following the taxable year in which the credit was first entitled to be claimed. The act prohibits the taxpayer from selling, assigning, or otherwise transferring the credit.

IC 6-3.1-27-13 (effective January 1, 2005) is amended to provide that the credit must be approved and certified by the corporation.

IC 6-3.1-28-1 (effective January 1, 2005) is amended to define “corporation” as the Indiana Economic Development Corporation.

IC 6-3.1-28-7 (effective January 1, 2005) is amended to provide that a taxpayer wishing to claim the credit for ethanol production must be certified by the corporation as eligible for the credit.

IC 6-3.1-28-10 (effective January 1, 2005) is amended to provide that the taxpayer must provide a copy of the corporation's certification in order to claim the credit.

IC 6-3.1-28-11 (effective January 1, 2005) is amended to provide that the maximum credit per taxpayer for all taxable years is \$3,000,000.

IC 6-3.1-29 (effective January 1, 2006) is added to create the Coal Gasification Technology Investment Tax Credit. The act provides that the credit is 10 percent of the taxpayer's qualified investment for the first \$500,000,000 invested and five percent for the amount that exceeds \$500,000,000. The credit must be taken in ten equal installments beginning with the year that the facility is placed in service. The annual credit is the lesser of the amount determined above divided by ten, or the greatest of 25 percent of the adjusted gross income tax liability or the utility receipts tax liability. This amount is then multiplied by the amount of Indiana coal used in the taxpayer's power plant in the taxable year.

IC 6-3.1-30 (effective January 1, 2007) is added to create the Headquarters Relocation Tax Credit. The act provides that a business that relocates its corporate headquarters to Indiana is entitled to a credit equal to 50 percent of the costs incurred in relocating the headquarters. The credit claimed in a taxable year cannot reduce the taxpayer's tax liability to less than the liability incurred in the taxable year immediately preceding the taxable year in which the taxpayer incurred relocation costs. The credit can be carried forward for nine years and is not refundable and cannot be carried back to previous years.

COUNTY OPTION INCOME TAXES (IC 6-3.5)

COUNTY ADJUSTED GROSS INCOME TAX (IC 6-3.5-1.1)

IC 6-3.5-1.1-9 (effective July 1, 2005) is amended to provide that a county that increases its tax rate will receive the increased distribution in the calendar year following the adoption of the ordinance instead of having to wait until the year after the year that the ordinance is adopted.

COUNTY OPTION INCOME TAX (IC 6-3.5-6)

SEA 609 SECTION 11 (effective upon passage) provides that the Department will make an adjustment in the certified distribution for a county that increased its COIT or CEDIT tax rate during 2004.

IC 6-3.5-6-17 (effective July 1, 2005) is amended to provide that a county that increases its tax rate, will receive the increased distribution in the calendar year following the adoption of the ordinance instead of having to wait until the year after the year that the ordinance is adopted.

IC 6-3.5-6-27 (effective upon passage) is added authorizing Miami County to increase its county option income tax rate by 0.25 percent to finance and construct the costs of a county jail. The county income tax council is given until June 1, 2005 to adopt the tax to be effective on July 1, 2005.

IC 6-3.5-6-28 (effective upon passage) is added authorizing Howard County to increase its county option income tax rate by 0.25 percent to fund the operation and maintenance of a jail, a county detention center, or both. The county income tax council is given until June 1, 2005 to adopt the tax to be effective on July 1, 2005.

COUNTY ECONOMIC DEVELOPMENT INCOME TAX (IC 6-3.5-7)

IC 6-3.5-7-5 (effective upon passage) is amended to provide that the maximum county economic development income tax and county option income tax may not exceed 1.25 percent for Howard County.

IC 6-3.5-7-13.1 (effective July 1, 2005) is amended to provide that if Porter County increases its CEDIT rate after April 30, 2005, the first \$3,500,000 of tax revenue from the increase shall be used for the Northwest Indiana Regional Development Authority. The section also provides that if Lake County adopts CEDIT, some of the funds can be used for additional homestead credits.

IC 6-3.5-7-25 (effective March 31, 2005) is amended to extend until June 1, 2005 the ability of a county to pass an ordinance authorizing the use of the certified distribution of CEDIT revenue to be used for additional homestead credits to offset the inventory deduction.

INHERITANCE AND ESTATE TAX (IC 6-4.1)

IC 6-4.1-1-3 (effective July 1, 2004) is amended to provide that a lineal descendant of a stepchild is a Class A transferee whether or not the stepchild is adopted by the transferor. An individual adopted after being totally

emancipated shall be treated as a natural child of the adopting parent if the adoption was finalized before July 1, 2004.

IC 6-4.1-4-2 (effective July 1, 2005) is amended to provide that if the Internal Revenue Service allows an extension on a federal estate tax return, the corresponding due date for the Indiana inheritance tax return is automatically extended for the same period as the federal extension.

FINANCIAL INSTITUTIONS TAX (IC 6-5.5)

IC 6-5.5-1-2, and IC 6-5.5-1-20 (effective January 1, 2005) are amended to update the Indiana Code to coincide with the Internal Revenue Code in effect on January 1, 2005. There are exceptions to the update, and they include the increased bonus depreciation allowance, the increase for Section 179 expensing is capped at \$25,000, and the deduction allowed for domestic production activities under Section 199 of the Internal Revenue Code is not included.

SUPPLEMENTAL AUTO RENTAL EXCISE TAX (IC 6-6-9.5 and IC 6-6-9.7)

IC 6-6-9.5 (effective July 1, 2005) is added to authorize a two percent Vanderburgh County Supplemental Auto Rental Excise Tax. If the ordinance is adopted before June 1 of a year, the tax takes effect for auto rentals occurring after June 30.

IC 6-6-9.7-7 (effective May 15, 2005) is amended to authorize an increase in the Marion County Supplemental Auto Rental Excise Tax from two percent to four percent.

TAX ADMINISTRATION (IC 6-8.1)

IC 6-8.1-1-1 (effective July 1, 2005) is amended to changes the reference from county food and beverage taxes to the various food and beverage taxes.

IC 6-8.1-3-17 (effective upon passage) is amended to require the Department to establish a tax amnesty program for taxpayers with unpaid tax liabilities that were due and payable before July 1, 2004. The act provides that the amnesty period cannot exceed eight business weeks and must end before July 1, 2006. The program provides that upon payment of all listed taxes for a tax period, the Department will abate all penalties, interest and fees; shall not seek criminal or civil prosecution; and shall not issue or if issued shall withdraw any assessment, demand notice, or a warrant for payment of a listed tax. If the taxpayer participates in amnesty, the taxpayer is not eligible for any future amnesty program that may be established. Failure to pay all listed taxes due for a tax period invalidates any amnesty granted for that tax period. Any taxpayer that failed to add back riverboat wagering taxes as required under IC 6-3-1-3.5(b)(3) is not eligible for tax amnesty. The act requires the Department to conduct an assessment of the impact of the tax amnesty program on tax collections and an analysis of the costs of administering the tax amnesty program.

IC 6-8.1-10-12 (effective upon passage) is added to provide that a taxpayer that was eligible to participate in the tax amnesty program and did not pay the tax liability that was due, will have a penalty imposed that is double the penalty imposed on the original assessment. The penalty does not apply if the taxpayer has filed an appeal with the tax court for a liability that was eligible for the amnesty program. The additional penalty does not apply if the taxpayer has a legitimate hold on making the payment as a result of an audit, bankruptcy, protest, taxpayer advocate action, or another reason permitted by the Department. The penalty does not apply if the taxpayer had established a payment plan with the Department before the effective date of the act or can verify with reasonable particularity that is satisfactory to the commissioner that the taxpayer never received the notice of outstanding tax liability.

INNKEEPER'S TAXES & OTHER LOCAL TAXES (IC 6-9)

IC 6-9-7-6 (effective July 1, 2005) is amended to authorize an increase in the Tippecanoe County innkeeper's tax from five percent to six percent.

IC 6-9-8-3 (effective May 15, 2005) is amended to authorize an increase in the Marion County innkeepers' tax from six percent to nine percent. The ordinance if adopted will go into effect on July 1, 2005.

IC 6-9-12-5 (effective May 15, 2005) is amended to authorize an increase in the Marion County food and beverage tax from one percent to two percent effective July 1, 2005.

IC 6-9-13-2 (effective May 15, 2005) is amended to increase the Marion County admissions tax from five percent to six percent.

SEA 329 (effective January 1, 2005) authorizes the food and beverage tax to remain in effect in Henry County until December 31, 2015. The amended sections include IC 6-9-25-1; IC 6-9-25-9.5; IC 6-9-25-10.5 and IC 6-9-25-11.5.

IC 6-9-27-1 (effective July 1, 2005) is amended to authorize the town of Avon and the city of Martinsville to adopt a one percent food and beverage tax.

IC 6-9-35 (effective May 15, 2005) is amended to authorize Boone, Johnson, Hamilton, Morgan, Hancock, Hendricks and Shelby counties and the cities or towns of Carmel, Fishers, Greenfield, Lebanon, Noblesville, Westfield and Zionsville to adopt a food and beverage tax if Marion County increases its food and beverage tax by July 1, 2005. If the counties impose a food and beverage tax, it is in addition to the tax already imposed or authorized in Mooresville, Plainfield, Brownsburg, Avon and Martinsville. If the counties impose a tax, and then the cities or towns of Carmel, Fishers, Greenfield, Lebanon, Noblesville, Westfield and Zionsville, the municipal food and beverage tax is in addition to the county food and beverage tax. Fifty percent of the tax imposed by the counties authorized to impose the tax is paid to the capital improvement board of Marion County and fifty percent is retained by the county. If the total amount that is received by the CIB from the counties exceeds \$5,000,000 in a fiscal year, then all the counties are to retain the remainder of the tax collected. All money collected by a municipality is for the use of the municipality to reduce property taxes or for any legal purpose of the municipality.

IC 6-9-36 (effective May 15, 2005) is added to authorize Lake and Porter counties to impose a one percent food and beverage tax. The tax takes effect after the last day of the month that follows the month in which the ordinance was adopted. Revenue from the tax is to be paid to the northwest Indiana regional development authority.

IC 6-9-37 (effective July 1, 2005) is added to authorize Hendricks County to impose an innkeepers' tax up to a maximum of eight percent with any tax revenue attributable to a rate that exceeds five percent, will be divided equally between tourism promotion and for the development of a county park, county fairground, or a county promotion.

IC 6-9-38 (effective July 1, 2005) is added to authorize Wayne County to adopt a food and beverage tax. It also authorizes a city or town in the county to adopt a food and beverage tax. A municipality cannot adopt an ordinance until after July 31, 2006 unless the county unit relinquishes its authority to adopt an ordinance. If both the county and a municipality adopt the tax, the tax imposed by the county does not apply within the territory of the municipality imposing the tax.

MOTOR CARRIER SERVICES (IC 8-2.1)

IC 8-2.1-24-18 (effective Upon Passage) is amended to provide that a certain federal requirement concerning diabetic drivers who operate motor vehicles for private carriers of property does not apply when the vehicle is operated intrastate.

MOTOR VEHICLE REGISTRATION (IC 9)

IC 9-18-2-7 (effective July 1, 2005) is amended to provide that the bureau of motor vehicles can establish a staggered registration system for intrastate carriers.

WASTE TIRE FEE (IC 13-11)

IC 13-11-2-245 (effective July 1, 2005) is amended to change the definition of vehicle for purposes of the waste tire fee to include a farm tractor, an implement of husbandry, and a semitrailer.

OIL INSPECTION FEE (IC 16-44)

IC 16-44-2-18 (effective July 1, 2005) is amended to increase the inspection fee on gasoline and kerosene from \$0.008 to \$0.01 per gallon effective July 1, 2005.

IC 16-44-2-18.5 is added to impose a special fuel inspection fee of \$0.01 per gallon. The inspection fee is not imposed on special fuel that is exempt from the special fuel tax under IC 6-6-2.5-30. The fee shall be collected and remitted at the same time as the special fuel tax. Revenue from the fee shall be deposited in the underground petroleum storage tank excess liability trust fund.

LOCAL GOVERNMENT PROVISIONS (IC 36)

COMMUNITY REVITALIZATION ENHANCEMENT DISTRICTS (CRED) - IC 36-7-13

IC 36-7-13-3.4 (effective July 1, 2005) is amended to provide that the income tax incremental amount for the CRED is the amount of state and local income taxes paid by the employees employed in a district, minus the sum of the base period amount plus the tax credits awarded under the EDGE credit to businesses operating in a district as a result of wages earned in the district.

IC 36-7-13-10.5; IC 36-7-13-12; and IC 36-7-13-12.1 (effective July 1, 2005) are amended to provide that in economically distressed counties and in counties or municipalities that adopt an ordinance designating a district, the local legislative body shall publish notice and file a copy of the notice, stating the economic benefits and costs incurred by the district and the impact on tax revenues of each taxing unit.

IC 36-7-13-13 (effective July 1, 2005) is amended to provide that when a CRED district is created, the legislative body that created the district will provide the Department on an annual basis a list of employers in the district including the federal identification number for each business in the district, the street address, and the name, telephone number and e-mail address of a contact person for each business in the district.

IC 36-7-13-14 (effective July 1, 2005) is amended to provide that businesses operating in a CRED shall report to the Department information necessary to calculate incremental sales and income taxes attributable to the district.

IC 36-7-13-21 (effective July 1, 2005) is added to provide that two or more advisory commissions or legislative bodies may jointly undertake CRED projects.

MARION COUNTY PROFESSIONAL SPORTS DEVELOPMENT AREA (PSDA) IC 36-7-31

IC 36-7-31-11 (effective May 15, 2005) is amended to provide that a tax area may be changed only to include a site or a future site that is subject to a lease under the capital improvements board or Indiana stadium and convention building authority.

IC 36-7-31-14.1 (effective May 15, 2005) is added to provide that the budget director can increase the annual cap of state sales and income tax that may be allocated to a professional sports development district in Marion County from \$5,000,000 per year to \$16,000,000 per year.

PROFESSIONAL SPORTS DEVELOPMENT AREA (PSDA) IC 36-7-31.3

IC 36-7-31.3-9 (effective May 15, 2005) is amended to provide that after May 14, 2005, a PSDA may not change its area.

CERTIFIED TECHNOLOGY PARKS (CTP) (IC 36-7-32)

IC 36-7-32-6.5 (effective July 1, 2005) is added to provide the definition of gross retail incremental amount for CTPs increment financing.

IC 36-7-32-8.5 (effective July 1, 2005) is added to provide the definition of income tax incremental amount for CTPs increment financing.

IC 36-7-32-10 (effective July 1, 2005) is amended to authorize expansion of the CTP to adjacent territory located in another county.

IC 36-7-32-26 (effective July 1, 2005) is added to provide that two or more redevelopment commissions may jointly undertake economic development projects in the CTPs established by the redevelopment commissions.

NON CODE PROVISIONS

HEA 1120, SECTION 87 (effective upon passage) provides that the legislative body of each unit that contains an enterprise zone shall before December 1, 2005 adopt and forward to the enterprise zone board a resolution containing the legislative body's recommendation as to whether the zone should continue in existence or be terminated effective December 31, 2005. If the legislative body fails to adopt a resolution, it shall be considered to be recommending the termination of the zone.

HEA 1662, SECTION 1 (effective January 1, 2003) requires the Department to collect a quality assessment from each health facility that is not a nursing facility. The collection of the fee does not occur until the waiver request submitted is approved. The Department shall establish a method to allow a facility to enter into a payment plan to pay the assessment. If a health facility fails to pay the assessment within ten days of the due date, the facility is required to pay interest on the assessment. The Department is required to report each facility that fails to pay within 120 days after the assessment is due. The state Department of Health shall notify each facility that has not paid the assessment that the facility's license will be revoked if the assessment is not paid.

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SIGNIFICANT COURT CASES

(June 2004 - May 2005)

Guardian Automotive Trim, Inc. v. Indiana Dept. of State Revenue
811 N.E.2d 979 (Ind. Tax Ct. 2004)

Guardian manufactures grilles, headlamp bezels, and other exterior automotive components. The manufacturing process requires Guardian to place a “mask” over the parts during the application of a “resist” spray. Guardian did not pay sales tax on this mask processing machine which cleans the masks in order to prevent defects. After an audit, the Department of Revenue assessed Guardian use tax. Guardian appealed this assessment, which was denied. The issue in front of the Tax Court was whether the Department was correct in denying Guardian exemptions from sales and use tax for the mask processing equipment. Under IC § 6-2.5-5-3, “[t]ransactions involving manufacturing, tools, and equipment are exempt from [sales and use] tax if the person acquiring that property acquires it for direct use in the direct production, manufacture, fabrication, assembly, extraction, mining, processing, refining, or finishing of other tangible personal property.” Production must entail a substantial change or transformation, and to receive the exemption it is enough that the item plays an integral part of the ongoing process of transformation. It is Guardian’s position that without the mask processing, it cannot sustain production of a marketable product, and thus it should be entitled to an exemption. It is the Department’s position that mask processing is not integral and essential to Guardian’s production of automotive trim parts. The Court ruled for Guardian, holding that an exemption was allowed because the process of cleaning the masks is an integral part of Guardian’s manufacture of the automotive trim parts. If Guardian did not clean the masks, many components would be rejected and unable to be sold. Even though production was halted momentarily to change the masks, production did not halt in order to process the masks. Since the masks cannot be used continuously without cleaning, the mask processing equipment is essential and integral to the overall production of the components. Also, since the chemicals used in this process are consumed in direct production of the components, Guardian is entitled to an exemption for those chemicals.

Kohl’s Department Stores, Inc. v. Indiana Dept. of State Revenue
822 N.E.2d 297 (Ind. Tax Ct. 2005)

The question in this case was whether Kohl’s was required to seek the Department’s permission to discontinue filing combined Indiana income tax returns. In 1993, the Department granted Kohl’s permission to retroactively file combined Indiana income tax returns. Later, in 2000, Kohl’s requested permission to discontinue filing its income tax returns on a combined basis. This request was granted and in 2001 Kohl’s filed amended tax returns for 1997 through 1999, requesting refunds for each year. The Department denied these claims for refund because of IC § 6-3-2-2(q), which states that a taxpayer must file a petition for permission to file combined returns within thirty days of the end of the affected tax year. The Department reasoned that a taxpayer was similarly obligated to file a request to discontinue filing combined returns within the same time frame. Kohl’s, on appeal to the Tax Court, claims that the plain and unambiguous language of IC §6-3-2-2(q) does not require it to seek permission to discontinue combined filing. The Court holds for Kohl’s because the language of the statute is plain and unambiguous and makes no reference to discontinuing combined filing. This statute is not susceptible to more than one meaning, thus legislative intent cannot be considered. If the legislature would have intended to impose such a restriction, it would have stated as much.

Hadd Barney v. Indiana Dept. of State Revenue
823 N.E.2d 339 (Ind. Tax Ct. 2005)

Barney was arrested after receiving a parcel containing marijuana. After he was arrested, he admitted to receiving twelve other packages of marijuana. Based on this, the Department assessed Barney with a controlled substance excise tax. Barney appealed this assessment to the Department, who determined that there was not sufficient evidence to show that Barney actually possessed six of the parcels. Accordingly, the Department sustained Barney’s protest for those parcels, but denied his protest with respect to the remaining six parcels. On appeal to the Tax Court, Barney claims that the exclusionary rule bars the use of Barney’s admissions to the police in a tax

assessment proceeding, those admissions are not sufficient evidence to establish that Barney possessed the marijuana, and that the Department did not properly allow for the weight of the packaging when calculating the assessment. The Tax Court affirms the Department's findings. Barney claimed that his admissions cannot be used as evidence that he possessed the marijuana because they were secured through coercion and duress. The Court states that although the exclusionary rule bars the use of illegally obtained evidence and confessions in criminal proceedings, it does not apply to tax assessment proceedings, and thus the exclusionary rule does not bar the use of Barney's admissions. The Court also holds that Barney's admissions to the police that he had received several packages containing marijuana are sufficient to show that he possessed the marijuana at issue. Barney failed to offer any evidence to show that the parcels for which he was assessed did not contain marijuana. Thus, he failed to establish a prima facie case and the burden never shifted to the Department to rebut Barney's evidence. Finally, the Court finds that Barney has presented no evidence to establish that packaging weights were not subtracted, thus the Court found that the assessment properly allows for the weight of each parcel's packaging materials.

Thomas R. Galligan v. Indiana Dept. of State Revenue
825 N.E.2d 467 (Ind. Tax Ct. 2005)

Galligan was the president and director of Irish Park, Inc. (IP). He resigned from this position in January of 1996. In August of 1996, the Department audited IP and determined that it had been deficient in collecting and remitting Indiana sales and use tax during 1993 through 1995. In 1997, IP was liquidated and IP's tax liabilities were still outstanding. In October of 1997, the Department attempted to collect IP's unpaid taxes from Galligan pursuant to IC § 6-2.5-9-3 (Indiana's responsible officer statute). Galligan appealed the assessment and claims he was deprived of due process because he was not given proper notice of the assessment against IP and thus did not have the opportunity to protest such assessment. The Court finds that Galligan is not responsible for the tax liability in 1993 because the Department issued that assessment to IP in October 1996, after Galligan resigned, and the Court refused to presume that Galligan was aware of the assessment. Also, Galligan was not responsible for the 1993 assessment because he did not receive personal notice of the liability until October of 1997, which failed to fall with the requirement of timely notice under IC § 6-8.1-5-2(a). In regards to the 1994 and 1995 tax years, the Court found that Galligan was timely notified within the three-year statute of limitations. He is liable for the taxes owed because he can be held personally liable for the taxes incurred during the years he was president since he had the duty to remit the taxes to the State. It does not matter that Galligan received notice of the assessment when he was no longer an officer of IP because he was put on notice of his personal liability via IC § 6-2.5-9-3.

Next, the Court considered whether the Department erred in imposing sales and/or use taxes on certain IP transactions.

- The Court held that IP's delivery of excavated dirt, sand, and rock to customers in exchange for only delivery charges was considered a service, and thus no state sales tax was due.
- The Court held that IP did not owe use tax on delivery charges paid on certain purchases of stone because, according to Galligan's own testimony, the stone was shipped to IP F.O.B. origin. The Court held that this testimony constituted reasonable evidence to satisfy the provisions of IAC title 45, rule 2.2-4-3 because the Department failed to rebut the evidence.
- The Court held that IP was entitled to a credit against its Indiana use tax liability in the amount of sales tax paid to Kentucky in relation to purchases it made in Kentucky. The Court further held that IC § 6-2.5-3-5(a) makes no mention that the credit against Indiana use tax is only applicable to situations in which a taxpayer has purchased property in another state and personally brings it back to Indiana.
- IP hired Clark County Metals (CCM) to perform various machining services on IP's own equipment, and on occasion CCM sold parts in connection with its services. The Court held that they cannot find that CCM intended to treat the transfer of property and the provision of its services separately and thus the assessment of use tax was appropriate.
- The Court held that if an invoice from a service provider indicates its intent to treat the sale of its services and the sale of its materials separately, then use tax cannot be imposed on IP for that transaction.
- The Court held that use tax cannot be imposed on a transaction where the transfer of property and the rendition of services are concurrent, but the transfer of property was incidental to providing the service.

- The Court held that evidence did not support an exemption from use tax for tangible personal property purchased to become a part of an improvement to real estate under contract with an exempt organization because Galligan did not produce sufficient evidence to prove that IP obtained an exemption certificate from the exempt organization and that it issued that exemption certificate to the supplier at the time of purchase.
- The Court held that a person who consumes tangible personal property may avoid paying the use tax to the Department if that person retains a receipt evidencing the payment of sales tax, to be inspected by the Department. In this case, Galligan failed to present original invoices for his purchases, thus he must pay use tax on the purchases of computer equipment, radio equipment, vehicles, diesel fuel, and office remodeling costs.

David R. Webb v. Indiana Dept. of State Revenue
826 N.E.2d 166 (Ind. Tax Ct. 2005)

Webb, and Nevada corporation with its principal place of business in Indiana, was assessed with additional gross income tax for the years of 1995 through 1997. The assessment was due to the Department's finding that Webb's sales to out-of-state purchasers were local transactions subject to Indiana's gross income tax. The transactions at issue were sales to foreign customers. These foreign customers would send representatives to Webb's production facility to examine the product (veneer). On the basis of that examination, the representatives selected the desired bundles of veneer for purchase and signed sales agreements with Webb. Only after the veneer arrived at the Port of Destination would the foreign customer tender the shipping documents, inspect the veneer and take physical possession thereof. The Department assessed the additional tax because it believed the sales were local in nature because of the representative's visit to Indiana. Webb believed that income was exempt from the tax because it was earned in interstate commerce. Webb filed an appeal with the Tax Court, and the Tax Court granted Summary Judgment in favor of Webb. The Court found that the sales were not local in nature and were not completed in Indiana. The Court held that when Webb presented the veneer to the foreign customers during their visit to the Indiana factory, no sales agreement existed and the customers merely examined and formed the sales contract in Indiana. No inspection or acceptance occurred until the goods arrived at the Port of Destination. Therefore, the transactions were interstate in nature and no additional tax should be assessed to Webb.

U-Haul International, Inc. v. Indiana Dept. of State Revenue
826 N.E.2d 713 (Ind. Tax Ct. 2005)

The question in this case was whether U-Haul International's (UHI) gross income was derived from Indiana sources as required by the gross income tax imposition statute. UHI rents moving equipment, and the system is composed of four groups: (1) Fleet Owners, (2) Rental Companies, (3) Rental Dealers, and (4) UHI. UHI itself is incorporated in Nevada and conducts 100 percent of its business from its Phoenix, Arizona headquarters. UHI did not file state income tax returns in any state other than Arizona. The Department issued assessments against UHI, assessing it for gross income on 100 percent of the rental receipts collected by the Indiana Rental Dealers. According to IC § 6-2.1-2-5, nonresidents are subject to gross income tax on income it derives from Indiana sources only. In order to determine whether gross income was derived from and Indiana source, the Court must determine whether the Indiana activities are related to the critical transaction and are more than minimal, not remote or incidental to the total transaction. The critical transaction is defined as the activity that gives rise to the gross income in dispute. The Department claimed that UHI received an interest in the income generated by the Indiana rentals and should therefore be taxed on that income. The Court found, however, that UHI was not contractually entitled to any of the rental receipts. UHI's gross income arose entirely from the services it provided in Arizona to members of the U-Haul System. UHI received income in exchange for the clearinghouse, accounting, computer, management analysis, and other services it provided. The critical transaction – the services provided by UHI – occurred entirely in Arizona. Thus, UHI was not subject to Indiana's gross income tax.

Indiana Dept. of State Revenue v. Trump Indiana, Inc.
814 N.E.2d 1017 (Ind. 2004)

Here the Indiana Supreme Court held that the definition of real property as set forth in the property tax statutes did not govern the imposition of the Indiana use tax, so the riverboat at issue was subject to use tax even though the property tax statute defined a casino riverboat as real property. Trump purchased the boat in Florida, but did not pay any Florida or Indiana sales or use tax in connection with this acquisition. To properly define the term “personal property,” the Supreme Court reasoned that the ordinary meaning of “tangible personal property” should apply because the General Assembly did not define this phrase for sales and use tax purposes. Referencing *Black’s Law Dictionary*, the Court concluded that a casino riverboat qualified as “any movable or intangible thing that is subject to ownership and not classified as real property.” *Black’s Law Dictionary* 1254 (8th Ed. 2004). As such, the riverboat was properly taxed as personal property for purposes of the use tax when it entered Indiana, and then became realty for the purposes of property taxes once installed in service.

Morton Buildings, Inc. v. Indiana Dept. of State Revenue
819 N.E.2d 913 (Ind. Tax 2004)

The Court held that raw materials purchased and used out-of-state to make building components that were eventually assembled into prefabricated buildings in Indiana were not subject to Indiana use tax. Production of these components took place outside Indiana, after which Morton transported the components to a building site within Indiana. Raw materials purchased at retail were consumed in the out-of-state production process and therefore never used in Indiana. Additionally, the materials that were used in Indiana, the building components, were not taxable when used in Indiana because they were not acquired in a retail transaction, but fabricated by Morton. See Ind. Code Ann. § 6-2.5-3-2. Consequently, the court imposed no use tax on either the raw materials or the building components.

Graham Creek Farms v. Indiana State Dept. of Revenue
819 N.E.2d 151 (Ind. Tax 2004)

The Court held that Graham was entitled to several sales and use tax exemptions for certain items purchased for use in its farming operation. Graham is a farming partnership in Jennings County, Indiana, and the Department assessed it with unpaid sales tax on many items purchased for use in its farming operations. The court held that in order for tangible personal property used in agricultural production to be exempt from use tax, the property at issue must be integral and essential to the production process, although it does not have to have a transformational effect on the good being produced. See Ind. Code Ann. § 6-2.5-5-1 to -2. Pursuant to this rule, the following purchases were exempt from use tax: (1) waste used as turkey house bedding, because it was essential to the turkey raising process; (2) materials used to remodel a tobacco barn, which were essential to the drying process in manufacturing marketable tobacco; (3) cattle fencing used to confine cows during the production process; (4) a bush hog takeoff shaft used at Graham’s no-till farm to prepare fields for planting, which was essential to farming; (5) parts to replace worn and broken parts on exempt machinery; and (6) a tarpaulin cover used to protect grain being moved from place to place, which was essential to the production process. The following were not exempt from use tax: (1) the purchase of rain slickers, because they were not for safety, but convenience; (2) a backhoe and a repair part, because they were not directly used in the production process; (3) purchases of rat bait for use while seed is in storage, which is not during the production process; (4) purchase of materials used to maintain a grain leg, because the materials were not used in the grain drying process; (5) gravel purchased to pave a driveway, because no production occurs during loading; (6) tools purchased to repair equipment, because the tools were not directly used in the production process; (7) purchase of rope used to tie tarpaulins intended to protect stored hay, because hay was not used in any production processes.

Norrell Services, Inc. v. Indiana Dept. of State Rev.
816 N.E.2d 517 (Ind. Tax 2004)

The Court held that the Indiana Department of Revenue may not change its position in a letter of finding absent a change in facts or a change in the governing regulation. Norrell Services is a Georgia corporation providing temporary employee services that had entered into franchise agreements with franchisees in Indiana. In 1982, an audit by the Department concluded that Norrell owed gross income tax on the franchise fees it received from Indiana franchisees. On protest from Norrell, the Department issued a Letter of Finding (1984 LOF) determining the franchise agreements and Norrell’s “local activity was not sufficient to permit imposing the gross income tax on the franchise fees.” Twelve years later in 1996, the Department issued a proposed assessment to Norrell

again claiming gross income tax due on franchisees it received from the Indiana franchisees. Again, Norrell protested to the Department, however, this time the Department issued a Letter of Finding (1998 LOF) in which it ruled Norrell was liable for gross income tax on the portion the franchise fees it received for “payment of employees’ wages” and “royalty fees.”

The Court ruled that such a change in position violates IC §6 8.133, which, for the years at issue, provided that if the Department changed its position on the interpretation of the gross income tax, the new position could not increase a taxpayer’s tax liability for the periods prior to the change in interpretation. The Court found it was clear the 1984 LOF and 1996 LOF took different positions. Unless Norrell modified the franchise agreement or a change in the governing regulation occurred, the Department improperly changed its position in the 1996 LOF.

Indiana Department of Revenue v. 1 Stop Auto Sales, Inc.
(Ind. S.C. 2004)

The Supreme Court held that a corporate taxpayer could not deduct the total amount of its receivables that constituted uncollectible debts for federal tax purposes from sales tax liability, but rather could only deduct the portion of the amount of receivables equal to the amount actually written off for federal income tax purposes.

1 Stop Auto is an automobile dealership that sells vehicles on what it describes as a “buy-here, pay-here” basis. Under this financing arrangement, 1 Stop loans its consumers not only the entire amount of the purchase price of the vehicle but the sales tax due on the vehicle as well. 1 Stop filed claims for refund of sales tax, arguing that it was entitled to refund of sales tax that it had paid regarding receivables that it had written off as bad debt for federal tax purposes. That is to say, when a customer fails to repay its obligations to 1 Stop and 1 Stop writes off the loan as uncollectible, the I.R.S. requires 1 Stop, in calculating the federal income tax deduction to which it is entitled, to reduce the amount written off by the value of any repossessed collateral. 1 Stop argues that, in calculating the deduction from gross retail income, it should not be required for Indiana sales tax purposes to reduce the amount written off by the value of any repossessed collateral. The Tax Court on rehearing agreed with 1 Stop.

The question before the court is whether a retail merchant is entitled to deduct **the total amount** of any receivable that constitutes an uncollectible debt for federal tax purposes or only to deduct **that portion of the amount** of the receivable equal to the amount actually written off for federal income tax purposes. The Court incorporated the Revenue Department’s argument that, wholly independent of the debate over the reference to § 166 of the IRC, conventional legal, accounting, and tax parlance considers an “uncollectible debt” or “bad debt” to be the net debt that is unable to be collected or the actual total loss suffered. As such, the value of repossessed collateral should be taken into account in calculating the deduction for “uncollectible debt” that has been “written off,” irrespective of the reference to § 166.

Gary M. Newby v. Indiana Department of Revenue
(Ind. Tax Ct. 2005)

The Indiana Tax Court held that the constitutional prohibition against double jeopardy did not preclude assessment of CSET, and imposition of CSET against taxpayer did not violate provisions of taxpayer’s plea agreement with state.

Newby appealed final determination of the Department of State Revenue assessing him with controlled substance excise tax (CSET), including penalties and fees, in the amount of \$871,437.50. Newby was arrested after officers seized various controlled substances from Newby’s residence while executing a warrant. Newby was charged with several criminal offenses, including possession of substances and maintaining a common nuisance. The Indiana Court of Appeals determined the warrant was invalid. Newby subsequently entered into a plea agreement with the State, whereby he agreed to plead guilty to maintaining a common nuisance, and forfeit all monies and illegal property seized pursuant to the arrest. In exchange, the State agreed to dismiss all other pending criminal charges and seek no further fines or forfeitures. The plea was accepted and Newby was sentenced consistent with the terms of the agreement. Then the Department assessed the CSET, including penalties and fees, in the amount of \$871,437.50 against Newby. Newby contends the CSET assessment

violates the Double Jeopardy Clause of the United States and Indiana Constitutions and is therefore invalid. The Tax Court disagreed.

Under a federal double jeopardy analysis, determination of whether two offenses are the same is dictated by the statutory elements test; therefore, a court must decide whether each statutory offense requires proof of a fact that the other does not. State double jeopardy analysis requires the consideration of both the statutory elements test and the actual evidence test to determine whether the essential elements of one challenged offense also establish the essential elements of another challenged offense. Federal constitutional prohibition against double jeopardy did not preclude assessment of controlled substance excise tax (CSET) against taxpayer by the Department of State Revenue; although defendant claimed that since criminal charges of maintaining a common nuisance and possession of controlled substances were the same offense, the CSET assessment, which was based on defendant's possession of controlled substances, constituted a second jeopardy, a person could commit maintaining a common nuisance without having possessed controlled substances, and thus, two offenses were not the same under the statutory elements test.

In the Matter of the Estate of Pearl Wilson, Deceased, Alice W. Thomas v. Indiana Department of State Revenue (Ind. Tax Ct. 2005)

The Indiana Tax Court held that (1) the Department's 120-day period in which to file petition seeking redetermination of state inheritance tax liability began to run on date that probate court made its determination, not when the Department received notice of determination, and (2) Department of Revenue was entitled to set aside determination of state inheritance tax liability on basis of surprise.

On September 17, 2001, Pearl Wilson (Wilson) conveyed approximately 397 acres of land to Thomas, her only surviving child. Wilson died twenty days later, on October 7, 2001, at the age of 87. On January 28, 2002, an independent appraiser valued the property conveyed by Wilson to Thomas (as of the date of Wilson's death) at \$637,000. On March 28, 2002, Thomas filed an Indiana Inheritance Tax Return Form IH-6 for the Estate, reporting that no taxes were due. The probate court entered its "Order Determining Inheritance Tax Due" in the amount of \$0.00. State Department of Revenue filed petition for redetermination of inheritance tax in probate proceeding, alleging that land transfer that occurred shortly before transferor's death should have been included in taxable estate. Following a hearing, the Circuit Court issued order stating that estate owed inheritance tax. Estate appealed.

The purpose of the statute providing that state's inheritance tax applies to transfers which are made in contemplation of the transferor's death is to "catch" and subject to taxation those transfers of property which were made with a testamentary motive, that is, a distribution in anticipation of death or for the purpose of avoiding death taxes or both.

Department of Revenue's 120-day period in which to file petition seeking redetermination of state inheritance tax liability in probate proceeding began to run on date that probate court made its determination, not when the Department received notice of probate court's determination.

Department of Revenue was entitled to have probate court's determination of state inheritance tax liability set aside on basis of surprise, even though the Department failed to seek redetermination of tax liability within statutory 120-day period; both county inheritance tax appraiser and probate court failed to give timely notice to the Department of their actions, the Department did not receive notice of tax determination until after 120-day period had expired, and probate court's order determining tax liability was void ab initio due to failure to timely serve the Department.

AREAS OF RECURRING TAXPAYER NONCOMPLIANCE

RETURNS PROCESSING CENTER (RPC)

The primary goal of the Returns Processing Center is to insure that all returns and payments are received, processed and posted in a timely and accurate manner. New technology is constantly being developed to facilitate this process. Although the Department receives a greater number of returns and payments electronically each successive year, it still processes over six million paper returns for 43 different tax and fee types; and, it continues to have problems with the following areas of recurring taxpayer noncompliance. Such problems cause additional work for Department employees, thereby delaying the timely processing of the returns and often causing late fees, penalties and interest.

Math Calculation

Erroneous math calculations are the chief error made on all forms. The error rate is much higher on paper returns of all tax types than on electronically-filed returns. The following is a brief listing of the highest percentage of errors by filing method and tax type.

Individual paper-filed returns: state and county tax math calculations

Estimated Tax: claiming incorrect amounts

Individual electronically-filed returns: Earned Income Credit information missing

Corporate paper-filed returns: math calculation errors

Corporate electronically-filed returns: estimated credit claiming incorrect amounts

Sales Tax paper-filed returns: duplicate filings

Withholding Tax paper-filed returns: duplicate filings

Coupons in General

When printing with the Adobe Acrobat Reader, taxpayers often have their property values set to "shrink to fit page." When a voucher is printed in this mode, the entire voucher shrinks, and the scan line and amount due print too high on the page to be read.

Use of Non-Department Payment Coupons

Each year the Department provides preprinted coupon vouchers to taxpayers who are registered with the Department and have a previous history of filing coupons. Relevant tax types include: sales tax, withholding tax, estimated tax for both individuals and corporations, and various other taxes and fees. Each month, the Department receives several thousand payments without coupons, others with handwritten information on pieces of paper, coupons from prior filing periods with handwritten changes to fit the time periods for which the taxpayers are trying to file, or payments with no explanation at all. In addition, the Department receives numerous coupons generated by tax preparation software that cannot be processed by its automated equipment. These coupons have to be manually processed, which delays payment postings to taxpayers' accounts.

Post Filing Coupon (PFC)

Post Filing Coupons are used to pay additional tax on the Indiana Individual Income Tax Return. In order for scanning equipment to properly recognize taxpayers and the amounts of their payments, PFC's must have the dollar amount and scanline in an "OCR-A Extended" font. When this is not the case, erroneous tax notices can be issued by the Department.

The Department has found that the scanlines on coupons from at least three software vendors do not include this required font. Officials from those companies say that tax practitioners are not downloading the font when they download the documents for printing. The Department has suggested that software companies "hard code" the required font into their documents for the scanline and dollar amount.

Failure to Complete All the Required Lines/Information

The Department receives numerous incomplete returns, which greatly delays processing. Department personnel must either complete the returns based on information provided, contact the taxpayers, or mail back the returns

to taxpayers for additional information. All of these options hinder the Department's ability to process returns quickly and efficiently.

Duplicate Returns

Some taxpayers file returns electronically, as well as paper copies of the same returns, thus creating duplicate returns. The second, duplicate returns received by the Department's computer system will "suspend" and then have to be reviewed individually by tax analysts.

Filing the Wrong Return

The Department receives numerous returns each year which are either 1) on the correct forms but for the wrong year, or 2) on the wrong forms but for the correct year. An example would be taxpayers' submitting IT-40EZ forms, even though they do not qualify for that form because of type of income or deductions.

Taxpayers who are residents of reciprocal states often file on Indiana Forms IT-40 and take their home states' deductions, rather than filing the appropriate Indiana Forms IT-40RNR (Reciprocal Nonresident).

Missing W-2 Detail on 2-D Barcoded Returns

In 2004, the Department began requesting the detailed W-2 information on 2-D returns from software vendors in order that our Returns Processing System (RPS) could validate the amounts being claimed as Indiana State and County Withholding on the IT-40. Due to miscommunications on the Department's part, this practice was turned off within the RPS in 2004, but it was resurrected in 2005.

It has been noticed during the 2005 processing season that, even though most 2-D returns did include the detailed W-2 information, we still received over 50,000 2-D returns that did not.

Although this problem is not limited to one particular software vendor, the majority of these 2-D returns with missing W-2 data came from Intuit's Professional users. In most cases, the Employers' Federal I.D. numbers were missing; thus, all W-2 information was dropped. We also experienced similar issues with the software companies of CCH Incorporated, Creative Solutions, Drake Enterprises, H & R Block, TaxWorks, Petz Enterprises, and even our own Internet provider, accessIndiana.

With the number of 2-D returns missing this data growing so quickly and the fact that hard copies of the W-2 forms were attached to the 2-D returns in most cases, we again decided to turn off the review code within the RPS for the remaining portion of 2005. We will discuss this issue again with the software vendors to see what can be done to eliminate this issue for the 2006 processing season.

Failure to Use Barcode Technology

Even when their software is capable of printing barcodes, some taxpayers are not taking advantage of this service.

Failure to Attach W-2 Forms to Returns

The Department receives a vast number of Individual Income Tax returns without W-2 forms to verify the withholding taxes taken as credits on the returns. Failure to submit W-2 forms causes the returns to be rejected and returned to taxpayers with requests for correct documentation.

Failure to Attach W-2 Forms to the WH-3

The WH-3 is a reconciliation of the W-2 forms for employers; both the WH-3 and all W-2 forms must be submitted together annually. The Department often receives WH-3 forms without W-2 forms attached. It also often finds cases of taxpayers changing business names during the year but continuing to file their taxes under their previous Identification Number, and then using the incorrect forms at the end of the year to submit their withholding information for the year. Although the Department provides for the filing of WH-3 and W-2 forms using magnetic media, few taxpayers take advantage of this technology.

Failure to Attach the Necessary Schedules

The Department finds that taxpayers often take deductions or credits on their tax returns, but fail to include

documentation or necessary schedules to substantiate the deductions or credits being taken (e.g., College Credit, Form CC-40).

Failure to Comply with Enterprise Zone Deduction

Taxpayers who live in Enterprise Zones and work for qualified employers in those zones may be qualified to take the Enterprise Zone Deduction. The deduction is one-half of the earned income shown on Form IT-40QEC, or \$7,500, whichever is less. In most cases, the deductions are calculated incorrectly, or the Forms IT-40QEC that should be completed and submitted by the employers are not attached to the taxpayers' Forms IT-40.

IT-9, Extension Payment Voucher

Taxpayers file Form IT-9, even though no tax is due; or, they file the form, showing taxes due, but fail to include a payment.

Penalty for Underpayment of Estimated Tax

Taxpayers who don't have taxes withheld from their income and/or don't pay sufficient estimated taxes throughout the year usually owe penalties for underpayment of estimated taxes. Generally speaking, taxpayers who owe \$400.00 or more in state and county taxes for the year but do not have taxes withheld from paychecks need to make estimated tax payments during the year.

Failure to Calculate County Tax

Often taxpayers fail to compute their county taxes. If taxpayers lived and/or worked in Indiana counties that have county taxes on January 1 of the tax year, they must compute the amount of country tax due at the applicable rate. Failure to calculate county taxes due may delay processing of their returns.

Improper Completion of County Boxes

Some IT-40's are received with "00" inappropriately marked in the county boxes. (An example is "00" entered in the spouse boxes for a single taxpayer.) The Department's computer system recognizes "00" as meaning a non-reciprocal, out-of-state county.

Fuel Tax — Common Reporting Errors

A review of previously-filed monthly special fuel and gasoline tax returns has revealed the following most common reporting errors on Forms FT-1, SF-701, MF-360, SF-900, SF-401, MF-600, SF-801, SF-IVP and FT-501, as well as Schedules 1A, 2A, 3A, 5 through 10, 501A, 501B and 501I:

- Return not signed
- Amount due not included with return
- Payment submitted without return
- Missing schedules
- Incomplete information provided on schedules
- Transactions reported in the wrong month (All special fuel transactions must be reported in the month in which they occur.)
- Same deductions claimed on more than one schedule
- More than one fuel type reported on same schedule
- Export schedules not filed in duplicate, as required
- Dyed fuel transactions reported on schedules designated for clear fuel
- Deliveries of special fuel with an Indiana destination misreported on export schedules
- Truck deliveries misreported on Schedule 6 (detail of disbursements reported on Forms SF-900 and MF-360)
- Computer-generated forms/schedules that do not conform to Department requirements
- Not filing dyed fuel use schedule correctly

Environmental Tax — Common Reporting Errors

A review of previously-filed environmental returns has revealed the following common reporting errors on Forms UST-1, HC-500, HW-020 and SW-100:

- Return not signed
- No Federal I.D. Number/Social Security Number

- Amount due not included with return
- Payment submitted without return
- Payment amount is different than amount due
- Missing schedules
- Duplicate filing

Trust Taxes – Check Stubs

When stubs are attached to checks accompanying trust tax returns, their envelopes can not be processed by the Department's automated mail-opening equipment. These envelopes must go through an assisted mail-opening procedure before the checks can be processed for deposit, which creates additional expense for the Department and delays deposits.

Trust Taxes – Retail Sales and Use Tax and/or Withholding Tax

•Many taxpayers continually fail to use the template provided to them in the payment coupon packet to accurately enter information on the correct lines of their ST-103. This invariably causes their returns to be "suspended" and then have to be reviewed by tax analysts.

•Taxpayers are not properly registered with the Department prior to submitting payments/returns. In these cases, accounts are not established for tax types and payments/returns cannot be credited to taxpayers' accounts.

•Taxpayers fail to complete the entire ST-103 returns and/or Forms WH-1 and the annual WH-3. Each month, the Department receives thousands of incomplete returns. These returns cannot be automatically processed and are "suspended" until they can be manually reviewed, corrected, and posted to taxpayer accounts.

•Taxpayers do not use their complete Indiana Taxpayer Identification (TID) Numbers on forms and in correspondence. Indiana Taxpayer Identification Numbers use the 10-digit TID Numbers with the three-digit location number and do not drop leading zeros. Our processing system requires all 13 digits. If taxpayers have coupons with 10-digit TID Numbers, the three-digit location number, and then a single-digit, they may drop the 14th digit.

•Taxpayers send in photocopied returns being used for other time periods or other taxpayers. The information in the scanlines on preprinted returns determine where that return is credited or posted.

•Taxpayers are not using the Change Form when their businesses and/or locations close. In these cases, the respective business registrations need to be permanently closed by the Department. This form is included in the coupon booklet. Taxpayers need to check the box located under the space for telephone number and enter the close date. This should be used when a specific location has PERMANENTLY CLOSED (no longer in business). This should not be used if the business is being closed only temporarily (such as a seasonal business).

•On business tax applications, taxpayers need to include their township information. The Department has to have this information, because it is required to forward it on to the respective counties.

•When filing amended returns, taxpayers are not clearly marking the top of the form to state "AMENDED" returns.

Corporate Income Tax

•Taxpayers are not entering their correct Indiana-issued Taxpayer Identification Number (TID) in the Indiana Taxpayer Identification Number field of tax forms. They are entering either their Federal Identification Number (FID) or a variation or shortened version of the Indiana TID.

•For tax periods beginning in 2002 and ending in 2003, the Department requires the IT-20 "Fiscal" return and has sent out several mailings with the correct corporate return included. However, taxpayers continue to file the incorrect return.

•When claiming withholding credits on Forms IT-65 or IT-20S, taxpayers are not attaching the WH-18's as verification of the credits claimed. Credits without this verification cannot be allowed.

- Taxpayers are not answering the question, “Is an extension of time to file attached?” on their Indiana corporate returns (e.g., IT-20, IT-20S, IT-65) when state or federal extension forms are attached.

Electronic Funds Transfer (EFT)

Taxpayers who register to remit Sales/Use Tax by Electronic Funds Transfer receive quarterly recap coupons. In error, they begin remitting on a quarterly basis, rather than monthly as required. Registering for and remitting by EFT does not change the taxpayer’s filing frequency (due dates). Remitting tax payments quarterly results in late payment penalty and interest assessments for the first two months of the quarter.

Some Sales/Use tax EFT taxpayers remit by EFT each month but fail to file the quarterly recaps, which results in delinquency notices being issued to the taxpayer. The quarterly recaps are required by law.

Some EFT withholding taxpayers are contacting the Department requesting monthly and quarterly coupons. Taxpayers who remit Indiana state and/or county withholding taxes by EFT are not required to file returns throughout the year. The only required return is the annual reconciliation form, WH-3.

Some service providers send ACH credit payments for taxpayers who aren’t registered for EFT and/or the tax type of the payment being submitted.

Missing Earned Income Credit Data on Indiana Electronically-Filed Returns

For the past two years, we have received electronically-filed Indiana IT-40 Tax Returns with taxpayers claiming the Indiana Earned Income Credit but omit some or all of the data from the electronic Indiana IN-EIC Schedule.

Tax software is supposed to carry the data entered on the Federal EIC Schedule through to the Indiana IN-EIC Schedule, eliminating the need for the user to key in the data twice. However, whenever the designated child is someone other than a natural child, grandchild, or foster child (e.g.: niece, nephew, sister, brother), often none or part of the required information doesn’t carry through properly.

We brought this issue to the attention of the affected software companies last year, and most fixed the problem. However, at the beginning of the 2005 filing season, we experienced this same issue with some vendors. After repeated calls again this year, we again resolved the issue, but not before several thousand returns came through with missing data.

Electronic Filing

The Department is still receiving hundreds of Indiana Forms IT-8453 (Declaration of Electronic Filing) from both Electronic Returns Originators (ERO’s) and taxpayers. When taxpayers use the Federal/State E-File Program, Indiana requires ERO’s to keep and maintain Form IT-8453 until December 31 of the third year after the return was signed and transmitted. Taxpayers who use either the Federal/State Internet Filing Program or Indiana’s I-File Program need to keep and maintain their IT-8453 for three years, themselves. **Nothing should be mailed to the Indiana Department of Revenue from electronic filers.**

COMPLIANCE DIVISION

AERONAUTICS/TAX CLEARANCES SECTION

The Aeronautics Section mailed 5,062 aircraft registration renewals for the calendar year 2004 with five owners in delinquent status as of December 2004. This translates into a 99.9 percent renewal compliance rate.

Indiana Code 6-6-6.5-2 states that any Indiana resident who owns an aircraft must register the aircraft within 31 days from the purchase date. Any nonresident who bases an aircraft in this state for more than 60 days shall register the aircraft with the Department no later than 60 days after establishing a base in Indiana.

Corporate Dissolutions

This section has received 1,244 notices of corporate dissolution. Indiana Code 6-8.1-10-9 provides that any corporate officer or director becomes personally liable for all taxes, penalties, interest, and fees associated with

the collection of liabilities for a period of one year from the date the Department is notified of the corporation's dissolution. The corporate officers or directors become personally liable, because the dissolving corporation distributed corporate assets before all liabilities were satisfied. Corporate officers or directors may be absolved of any personal liability by obtaining a Certificate of Clearance from the Department. The Certificate of Clearance certifies that all liabilities due the Department have been satisfied.

Reinstatements

Corporations that are administratively dissolved by the Secretary of State's Office for noncompliance must obtain a Reinstatement Certificate of Clearance from the Department verifying the corporation is in good standing before they can be reinstated with the Secretary of State. The Department issued 2,665 Certificates of Clearance and denied or closed 979 requests due to outstanding issues.

Letters of Good Standing

Corporations in the process of obtaining financial loans or other state agency grant or award approval will request a Letter of Good Standing. The Department has issued 2,175 Letters of Good Standing and denied 1,010 requests due to missing returns or unpaid liabilities.

Responsible Officer Billings

Responsible Officer Billings were generated for trust taxes representing a total due of \$7,021,099 not paid by corporations.

Federal Audits

If taxpayers do not amend their Indiana Corporate Income tax returns to report Indiana adjustments resulting from the federal modifications detailed in agreed-to federal Internal Revenue Service audit findings, a state tax assessment is generated. For Fiscal Year 2005, corporate taxpayers were billed a total of \$2,371,752.

Voluntary Compliance Program

Taxpayers who discover that they may have nexus with Indiana but have not filed returns frequently contact the Department to request entering into a Voluntary Compliance Agreement. These taxpayers are often confused or unaware of filing requirements for income tax and/or sales/use taxes in Indiana. Tax due is not forgiven, nor is interest abated. Voluntary Compliance Agreements resulting in \$10,314,865 of taxes collected were entered into for the fiscal year ending June 30, 2005.

Neighborhood Assistance Program

The total Neighborhood Assistance Credits allowed in Fiscal Year 2005 can not exceed \$2.5 million. The Indiana Department of Commerce verifies donations made to qualified Neighborhood Assistance Organizations. The Indiana Department of Revenue tracks the donations from various business entities, allowing 50 percent of allowable donations as credits against adjusted gross income tax. The Department processed 4,778 tax credits for the FY05.

BANKRUPTCY SECTION (See graph on Bankruptcy Collections on Pg. 65)

The Indiana Department of Revenue's Bankruptcy Section once again had a busy and productive fiscal year. The section received 11,036 incoming phone calls from taxpayers, attorneys, bankruptcy trustees and other Revenue divisions. Tax Analysts placed 4,500 outgoing phone calls during the 2005 period.

The Bankruptcy Section received 110,559 pieces of incoming correspondence, which includes the regular mail, e-mail, affidavits and faxes. This section generated 15,977 pieces of outgoing mail, including faxes, memorandums to the Attorney General's office, letters and e-mail messages to taxpayers, attorneys and trustees. The Section's 14 tax analysts also received, edited and processed 5,142 tax returns.

The Bankruptcy Section received and processed 9,574 payments from taxpayers and trustees, which resulted in \$24,712,594 in total payments on Bankruptcy accounts.

In all, 4,349 Chapter 7 Asset, Chapter 13 and Chapter 11 claims were filed, with a net assessment totaling \$76,711,273.

Three Bankruptcy clerks reviewed 26,615 Chapter 7 “No Asset” notices and placed “holds” in the Bankruptcy database and RPS case management when liabilities were present. The clerks also reviewed 25,578 discharges and released the “holds” when the cases were closed.

Once again, one of the section’s special projects for the year was to review older cases and determine if cases were active or inactive. This project resulted in a total of 4,802 additional cases being closed for the year.

INDIVIDUAL/WITHHOLDING/CORPORATIONS TAX SECTION

The Individual Income Tax Section’s mission is to identify and pursue non-filers, as well as to verify the accuracy of filed returns by utilizing information from the Internal Revenue Service, various Indiana state agencies, other states’ taxing agencies and anonymous informants. The standard compliance projects and findings for Fiscal Year 2005 are as follows.

Federal Audits

Information is obtained from the Internal Revenue Service concerning agreed-to federal tax audit reports to the Department. If taxpayers do not amend their Indiana Individual Income tax returns to report the Indiana adjustments resulting from the federal modifications detailed in the audit findings, a tax assessment is generated. For this fiscal year, this section billed 785 Individual taxpayers for \$4,256,192.

CP2000 Unreported Income

The Department obtains data from the Internal Revenue Service regarding taxpayers who failed to report all taxable income. This could be income derived from wages, interest, dividends or non-employee compensation. These types of income should be reported on W-2’s or Form 1099 information returns. An assessment is generated if income was not reported on the original returns. The project resulted in 30,103 taxpayer assessments for \$12,098,856.

Federal/State Cross Check

The Department obtains magnetic tape information from the Internal Revenue Service disclosing adjusted gross income and exemptions reported on federal returns. This information is compared to the state-reported adjusted gross income and exemptions from our master file. Automatic billings are then generated for any state and county tax due on the differences. This project resulted in 23,911 taxpayer assessments for \$10,237,476.

Individual Desk Audits

Individual desk examinations are performed based on anonymous sources or submissions from other divisions within the Department. The examination may consist of verifying income reported, credits/deductions taken, or the amount of refund requested. Individual desk audit resulted in 70 assessments of \$116,692.

Riverboat Project

The Indiana Department of Revenue obtained information on Indiana riverboat winnings received during 2001 and 2002 from federal Form W-2G (Certain Gambling Winnings). This information was sorted and approximately 12,000 letters were mailed to those nonresident winners who did not report this taxable income to the state of Indiana, resulting in \$774,546 additional tax revenues being collected in Fiscal Year 2005. (Beginning July 1, 2002, Indiana State Tax is automatically withheld from riverboat winnings in excess of \$1,200).

NONPROFIT/CHARITY GAMING/FIDUCIARY TAX SECTION

This section is responsible for determining nonprofit organizations’ eligibility for sales tax exemption and for licensing qualified nonprofit organizations for bingo, festivals, raffles, door prizes and charity gaming nights. This section also licenses manufacturers and distributors to sell tip boards, punchboards, pull-tabs and bingo equipment and supplies.

A total of \$3,791,165 in gaming fees were collected from the following licenses issued:

•Annual Bingo	857
•Charity Game Night	314
•Door Prize	7

•Festival	321
•Raffle	780
•Special Bingo	<u>173</u>
Total Licenses Issued	2,452

The following gaming license fees were collected:

Gaming License Fees	\$ 3,791,165
Manufacturers Licenses	\$ 48,000
Distributors Licenses	<u>\$ 110,000</u>
Total Fees Collected	\$ 3,949,165

During Fiscal Year 2006, the Charity Gaming Section will conduct seven educational/training seminars, which will be held in Clarksville, Fort Wayne, Indianapolis, Jasper, Lafayette, Michigan City and Richmond. Some of the topics covered will be:

- Legislative changes for Charity Gaming
- Charity Game Nights
- Bookkeeping – how it affects your organization
- Revised forms, including CG-8 and CG-21
- Revised Publication 2
- 60/60 law
- Illegal machines
- Duck Races

Fiduciary Tax Section

This section processed 55,927 fiduciary returns for Fiscal Year 2005, representing a total of \$27,587,443 in taxes collected.

CONSUMER USE TAX, UTILITY/TRUST/FUEL/SALES REFUNDS SECTION

Utility exemption requests for sales tax were received from 9,804 applications for Fiscal Year 2005. More than 9,300 of the applicants qualified for a full (100 percent) exemption on their purchases of public utility services. These applicants were primarily government, nonprofit organizations and companies whose use of the energy was predominately for an exempt purpose.

Approximately 260 business entities, such as restaurants and industrial processors, received less than a 100 percent utility exemption. Companies qualifying for a partial exemption must pay sales tax on their utility bills to their suppliers and then file annual refund claims for exempt percentage allowed. Another 200 applications were denied an exemption on the requested utility service as a result of desk examinations.

Consumer Use Tax

Collections totaling approximately \$3.1 million in consumer use taxes were processed. The majority of the dollars were collected either from out-of-state companies that owed Indiana use tax or from companies not registered in Indiana that collected sales tax from their Indiana customers. Monies collected as a result of consumer use tax bills totaled \$583,859.

Fuel Tax Refunds

This section examined 4,139 Fuel Tax refund claims during the year. These claims were filed by government entities, companies and individuals who paid Gasoline Tax and Special Fuel Tax on fuel subsequently used in an exempt manner.

Trust Tax Refunds

A total of 3,969 Trust Tax claims were reviewed for Fiscal Year 2005. Of these, approximately 83 percent were completed within the section, 434 claims were forwarded to the Audit Division for review. Another 254 were forwarded to other areas (Withholding, Corporations, or Individual) for determination.

IMPROVEMENTS IN THE TRAINING OF DEPARTMENT EMPLOYEES

AUDIT DIVISION

Audit Division provided training to new and veteran auditors throughout Fiscal Year 2005. Classes for new auditors focused on providing tax skills, computer training and report writing. Seminars for veteran auditors were presented to enhance tax auditing skills for newly-enacted laws. Training for new field investigators focused on reporting accountability and techniques for collection and depositing taxes owed to the state of Indiana.

PERSONNEL DIVISION

Listed below are the class and number of attendees for training sessions conducted by the Personnel Division during Fiscal Year 2005.

<u>CLASS</u>	<u>ATTENDED</u>
ABC's of Discrimination	53
Cultural Diversity Awareness	111
Ethics for State Employees	89
Family and Medical Leave Policy Changes	89
Intermittent Orientation	124
Microsoft Word 2003	79
New Employee Orientation (combined 101/102)	2
New Employee Orientation 101	87
New Employee Orientation 102	64
Opening Mail	12
Performance Appraisals	120
Preventing Violence in the Workplace	316
RPS Inquiry	17
RPS/AR Basics	76
Sexual Harassment Prevention	52
Update on Policies and Procedures	91

INDIANA TAX DESCRIPTIONS AND RECEIPTS

All amounts are in thousands. Percentage (%) change reflects increase from FY04 to FY05, unless otherwise indicated.

Aircraft License Excise Tax

Excise tax, due at the time of registration, is determined by weight, age and type of aircraft. All excise tax is distributed to the county where the aircraft is usually located when not in use.

FY95	\$ 395.6	FY99	\$ 392.9	FY03	\$ 649.7
FY96	\$ 404.4	FY00	\$ 430.0	FY04	\$ 641.8
FY97	\$ 377.6	FY01	\$ 513.8	FY05	\$ 753.4
FY98	\$ 381.8	FY02	\$ 548.9	CHANGE	17.39%

Alcoholic Beverage Tax

Per gallon rates are based on the wholesale purchase of the following: beer, \$.115; liquor/wine (21 percent alcohol or more), \$2.68; wine (less than 21 percent alcohol), \$0.47; mixed beverages (14 percent or less), \$0.47.

FY95	\$ 33,590.2	FY99	\$ 35,148.9	FY03	\$ 37,678.6
FY96	\$ 33,847.8	FY00	\$ 36,240.5	FY04	\$ 38,509.2
FY97	\$ 33,942.4	FY01	\$ 36,597.8	FY05	\$ 38,719.4
FY98	\$ 33,087.8	FY02	\$ 37,458.3	CHANGE	0.55%

Auto Rental Excise Tax

Rates are based on the gross retail income from the rental of a vehicle weighing less than 11,000 pounds for less than a 30-day period at a rate of four percent.

FY95	\$ 6,282.9	FY99	\$ 8,914.0	FY03	\$ 9,500.9
FY96	\$ 6,981.3	FY00	\$ 8,101.9	FY04	\$ 8,940.9
FY97	\$ 7,836.8	FY01	\$ 9,846.8	FY05	\$ 8,840.8
FY98	\$ 8,047.7	FY02	\$ 9,126.7	CHANGE	(1.12%)

Charity Gaming Excise Tax

Tax based on the sale of pull tabs, punchboards and tip boards to qualified organizations licensed for charity gaming at a rate of 10 percent of the wholesale price. Remitted by the licensed distributor or manufacturer (not the organization).

FY95	\$ 967.7	FY99	\$ 1,313.1	FY03	\$ 1,311.9
FY96	\$ 1,008.1	FY00	\$ 1,211.1	FY04	\$ 1,231.5
FY97	\$ 1,194.3	FY01	\$ 1,521.0	FY05	\$ 1,244.4
FY98	\$ 1,222.7	FY02	\$ 1,382.5	CHANGE	1.05%

Cigarette/Other Tobacco Tax

Levied against cartons or packs of cigarettes and cigarette papers, wrappers and tubes at the following rates: pack of 20 cigarettes, \$0.555; pack of 25 cigarettes, \$0.69375; other tobacco products, 18 percent of wholesale price.

FY95	\$ 123,025.6	FY99	\$ 127,634.1	FY03	\$ 352,375.1
FY96	\$ 123,720.2	FY00	\$ 125,151.5	FY04	\$ 338,715.7
FY97	\$ 128,420.3	FY01	\$ 120,827.4	FY05	\$ 343,077.9
FY98	\$ 127,969.1	FY02	\$ 123,214.8	CHANGE	1.29%

Controlled Substance Excise Tax

Imposes a tax on illegally delivered, manufactured or possessed controlled substances. (Prescription pharmaceuticals are exempt.) Tax based on the weight and schedule of substance. Rates vary from \$3.50 to \$40.00 per gram. Once paid, a taxpayer who can remain anonymous is given a receipt for the tax which is valid for a specific time period. The payment of this tax does not legalize the controlled substance or the activity associated with it.

FY95	\$ 291.4	FY99	\$ 55.5	FY03	\$ 82.5
FY96	\$ 110.4	FY00	\$ 60.2	FY04	\$ 33.9
FY97	\$ 192.9	FY01	\$ 86.5	FY05	\$ 30.4
FY98	\$ 101.2	FY02	\$ 44.4	CHANGE	(10.32%)

Corporate Adjusted Gross Income Tax

The adjusted gross income tax was increased from 3.4 percent to 8.5 percent on January 1, 2003.

FY95	\$ 896,846.2	FY99	\$ 1,006,572.4	FY03	\$ 307,178.8
FY96	\$ 911,725.7	FY00	\$ 950,323.9	FY04	\$ 443,078.0
FY97	\$ 924,048.3	FY01	\$ 842,546.3	FY05	\$ 608,370.0
FY98	\$ 950,488.6	FY02	\$ 687,877.6	CHANGE	37.31%

County Adjusted Gross Income Tax (CAGIT)

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt either the County Adjusted Gross Income Tax or the County Option Income Tax, but not both.)

FY95	\$ 228,824.4	FY99	\$ 265,759.0	FY03	\$ 321,835.7
FY96	\$ 236,047.2	FY00	\$ 284,537.8	FY04	\$ 343,586.3
FY97	\$ 243,561.6	FY01	\$ 308,062.2	FY05	\$ 338,871.6
FY98	\$ 254,264.0	FY02	\$ 343,479.4	CHANGE	(1.37%)

County Economic Development Income Tax (CEDIT)

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary.

FY95	\$ 64,222.8	FY99	\$ 112,551.9	FY03	\$ 146,937.1
FY96	\$ 74,388.0	FY00	\$ 121,817.0	FY04	\$ 172,682.2
FY97	\$ 80,456.4	FY01	\$ 140,547.2	FY05	\$ 159,007.6
FY98	\$ 97,879.2	FY02	\$ 160,225.3	CHANGE	(7.92%)

County Innkeepers Tax (CIT)

Tax determined locally at a rate not to exceed five percent of the gross income derived from lodging income (six percent in Marion County). Tax may be collected either by the Department or locally through the county treasurer's office.

FY95	\$ 14,248.6	FY99	\$ 20,251.1	FY03	\$ 24,043.4
FY96	\$ 14,973.1	FY00	\$ 21,077.4	FY04	\$ 24,410.5
FY97	\$ 15,600.7	FY01	\$ 24,073.7	FY05	\$ 26,120.3
FY98	\$ 18,962.8	FY02	\$ 22,586.8	CHANGE	7.00%

County Option Income Tax (COIT)

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt the County Option Income Tax or the Country Adjusted Gross Income Tax, but not both.)

FY95	\$ 275,462.7	FY99	\$ 368,343.2	FY03	\$ 463,054.0
FY96	\$ 285,327.6	FY00	\$ 394,089.4	FY04	\$ 424,603.1
FY97	\$ 314,942.0	FY01	\$ 437,437.3	FY05	\$ 401,887.5
FY98	\$ 344,646.5	FY02	\$ 497,555.7	CHANGE	(5.35%)

Estate Tax

Based on the difference between the State Death Tax Credit allowed at the federal level and the amount paid in state Inheritance Tax. Federal Estate tax credit for state calculations is being phased out, resulting in the reduction in Indiana Estate tax paid.

FY95	\$ 7,168.7	FY99	\$ 24,700.4	FY03	\$ 32,264.5
FY96	\$ 4,383.9	FY00	\$ 21,022.0	FY04	\$ 7,732.4
FY97	\$ 8,886.0	FY01	\$ 28,936.1	FY05	\$ 2,085.2
FY98	\$ 11,241.3	FY02	\$ 17,979.7	CHANGE	(73.03%)

Financial Institutions Tax

Based on the federal adjusted gross income at a rate of 8.5 percent for businesses which are engaged in extending credit, leasing (when it is the economic equivalent of extending credit) or credit card operations.

FY94	\$ 108,077.2	FY98	\$ 95,967.3	FY02	\$ 63,644.4
FY95	\$ 100,742.9	FY99	\$ 81,883.8	FY03	\$ 123,444.4
FY96	\$ 122,142.0	FY00	\$ 79,365.8	FY04	\$ 79,608.6
FY97	\$ 100,682.9	FY01	\$ 55,594.3	FY05	\$ 91,977.7
				CHANGE	15.54%

Food and Beverage Tax

Tax determined locally for purchases of food and beverages for immediate consumption at a rate of one percent of retail sales price.

FY95	\$ 20,452.6	FY99	\$ 23,574.1	FY03	\$ 27,842.3
FY96	\$ 21,341.0	FY00	\$ 26,021.0	FY04	\$ 29,550.2
FY97	\$ 22,239.9	FY01	\$ 26,438.9	FY05	\$ 30,370.8
FY98	\$ 23,683.5	FY02	\$ 27,859.6	CHANGE	2.78%

Gasoline Tax

The Gasoline Tax is \$.18 per gallon for all invoiced gallons of gasoline collected by the licensed distributor and added to the selling price.

FY95	\$ 430,807.7	FY99	\$ 466,427.9	FY03	\$ 518,295.6
FY96	\$ 437,096.3	FY00	\$ 464,152.8	FY04	\$ 582,610.7
FY97	\$ 443,869.2	FY01	\$ 493,684.2	FY05	\$ 579,675.0
FY98	\$ 455,569.6	FY02	\$ 480,808.9	CHANGE	(0.50%)

Hazardous Waste Disposal Tax

Based on the amount of hazardous waste (as defined by statute) placed in a disposal facility or by means of underground injection at a rate of \$11.50 per ton.

FY95	\$ 2,634.8	FY99	\$ 1,744.7	FY03	\$ 1,122.6
FY96	\$ 2,575.5	FY00	\$ 1,770.1	FY04	\$ 1,219.2
FY97	\$ 2,390.1	FY01	\$ 1,542.5	FY05	\$ 3,281.3
FY98	\$ 2,603.0	FY02	\$ 1,304.5	CHANGE	169.14%

Individual Adjusted Gross Income Tax

Based on the federal adjusted gross income with numerous adjustments for individual residents, partners, stockholders in Subchapter S Corporations, trusts, estates and nonresidents with Indiana income sources at a rate of 3.4 percent.

FY95	\$ 2,767,743.1	FY99	\$ 3,699,316.6	FY03	\$ 3,644,159.4
FY96	\$ 2,966,265.7	FY00	\$ 3,753,339.5	FY04	\$ 3,807,860.9
FY97	\$ 3,197,117.8	FY01	\$ 3,779,805.4	FY05	\$ 4,213,210.2
FY98	\$ 3,433,445.9	FY02	\$ 3,540,819.1	CHANGE	10.65%

Inheritance Tax

Based on the taxpayer class (transferee's relationship to deceased); property's taxable value; residency status; and situs of real and tangible property and intangible property.

FY95	\$ 98,886.3	FY99	\$ 124,011.8	FY03	\$ 165,710.5
FY96	\$ 93,767.2	FY00	\$ 119,198.1	FY04	\$ 132,262.8
FY97	\$ 106,470.1	FY01	\$ 134,748.2	FY05	\$ 149,354.5
FY98	\$ 113,141.7	FY02	\$ 123,905.6	CHANGE	12.92%

Marion County Admissions Tax

Specific to the RCA Dome, Victory Field and Conseco Fieldhouse in Indianapolis for any event at a rate of five percent of the admission price (does not include events sponsored by education institutions, religious or charitable organizations.)

FY95	\$ 713.0	FY99	\$ 1,209.9	FY03	\$ 4,457.0
FY96	\$ 860.3	FY00	\$ 4,567.5	FY04	\$ 5,041.8
FY97	\$ 966.3	FY01	\$ 4,527.7	FY05	\$ 5,212.6
FY98	\$ 931.4	FY02	\$ 4,247.0	CHANGE	3.39%

Marion County Supplemental Auto Rental Excise Tax

Based on the gross retail income from the rental of passenger motor vehicles and trucks in Marion County for less than a 30-day period at a rate of two percent. Revenue from the tax is paid to the Capital Improvement Board of Managers.

FY95	—	FY99	\$ 1,667.8	FY03	\$ 1,772.5
FY96	—	FY00	\$ 1,658.7	FY04	\$ 1,827.3
FY97	—	FY01	\$ 1,883.7	FY05	\$ 1,941.3
FY98	\$ 1,330.1	FY02	\$ 1,950.4	CHANGE	6.24%

Motor Carrier Fuel Tax

Per gallon rate of \$0.16 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY95	\$ 11,597.2	FY99	\$ 7,039.4	FY03	\$ 5,186.2
FY96	\$ 9,605.5	FY00	\$ 5,745.2	FY04	\$ 6,759.4
FY97	\$ 7,431.2	FY01	\$ 3,727.0	FY05	\$ 6,034.3
FY98	\$ 9,869.4	FY02	\$ 5,068.7	CHANGE	(10.73%)

Motor Carrier Surcharge Tax

Per gallon rate of \$0.11 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY95	\$ 78,437.4	FY99	\$ 90,232.4	FY03	\$ 79,540.8
FY96	\$ 67,380.2	FY00	\$ 76,747.4	FY04	\$ 85,343.2
FY97	\$ 61,220.0	FY01	\$ 90,891.2	FY05	\$ 84,280.2
FY98	\$ 93,552.6	FY02	\$ 79,466.6	CHANGE	(1.25%)

Motor Vehicle Excise Tax

Specific compliance program authorized by statute aimed at locating vehicles owned by Indiana residents and registered illegally out of state, thus avoiding State Vehicle Excise Tax. Based on the age and class of vehicle, plus penalty and interest for the time period vehicle is illegally registered. (Except for this program, Motor Vehicle Excise Tax is otherwise collected by the Bureau of Motor Vehicles.)

FY94	\$ 923.8	FY98	\$ 468.6	FY02	\$ 14.1
FY95	\$ 631.4	FY99	\$ 281.4	FY03	\$ 10.9
FY96	\$ 832.1	FY00	\$ 122.1	FY04	\$ 11.2
FY97	\$ 732.1	FY01	\$ 20.4	FY05	\$148.6
				CHANGE	1,226.79%

Pari-Mutual Admission Tax

Imposed at \$0.20 for each person who pays an admission charge to a racetrack grounds or satellite facility.

FY95	\$ 74.9	FY99	\$ 26.0	FY03	\$ 9.7
FY96	\$ 62.7	FY00	\$ 21.4	FY04	\$ 8.0
FY97	\$ 34.8	FY01	\$ 18.3	FY05	\$ 3.7
FY98	\$ 29.6	FY02	\$ 13.9	CHANGE	(53.75%)

Pari-Mutual Wagering Tax

A two percent levy is imposed on the total amount of money wagered on races and simulcasts conducted at a permit holder's racetrack. The tax is 2.5 percent of the total amount of money wagered on simulcasts from satellite facilities.

FY95	\$ 1,397.7	FY99	\$ 3,648.5	FY03	\$ 3,744.8
FY96	\$ 3,211.9	FY00	\$ 3,751.7	FY04	\$ 4,154.2
FY97	\$ 3,450.2	FY01	\$ 3,534.3	FY05	\$ 4,515.1
FY98	\$ 3,499.1	FY02	\$ 3,537.4	CHANGE	8.69%

Petroleum Severance Tax

Levied against producers or owners of crude oil or natural gas and imposed at the time these products are removed from the ground at a rate equal to the greater of either one percent of the petroleum value, or \$0.03 per 1,000 cubic feet for natural gas and \$0.24 per barrel of oil.

FY95	\$ 653.2	FY99	\$ 506.3	FY03	\$ 517.2
FY96	\$ 574.0	FY00	\$ 467.0	FY04	\$ 557.5
FY97	\$ 614.9	FY01	\$ 565.3	FY05	\$ 928.8
FY98	\$ 642.5	FY02	\$ 579.8	CHANGE	66.6%

Public Utility Tax (Railroad Car Companies/Railroads)

Based each year on assessments by the State Board of Tax Commissioners on the indefinite-situs distributable property of a railroad company that provides service within a commuter transportation district. This reduction reflects the reassessment of 2003.

FY95	\$ 4,440.6	FY99	\$ 5,786.7	FY03	\$ 5,815.5
FY96	\$ 4,894.7	FY00	\$ 5,996.7	FY04	\$ 3,596.9
FY97	\$ 5,077.9	FY01	\$ 8,586.6	FY05	\$ 3,281.8
FY98	\$ 5,080.2	FY02	\$ 5,020.5	CHANGE	(8.76%)

Riverboat Admissions Tax

Specific to any licensed riverboat on Indiana waterways at a rate of \$3.00 per person admitted.

FY95	—	FY99	\$ 110,745.4	FY03	\$ 80,553.4
FY96	\$ 4,597.7	FY00	\$ 116,565.6	FY04	\$ 80,684.6
FY97	\$ 56,262.5	FY01	\$ 118,630.0	FY05	\$ 80,926.2
FY98	\$ 90,921.4	FY02	\$ 127,769.1	CHANGE	0.30%

Riverboat Wagering Tax

If a licensed riverboat does not have flexible scheduling (dockside gaming), a tax of 22.5 percent (up from 20 percent) is levied against its adjusted gross receipts (total wagers, less payouts, less uncollected gaming receivables). If the boat has implemented flexible scheduling, the tax rate is graduated and ranges from 15 percent to 35 percent, depending on the adjusted gross receipts.

FY95	—	FY99	\$ 295,181.4	FY03	\$ 586,437.0
FY96	\$ 13,354.7	FY00	\$ 328,200.8	FY04	\$ 679,482.9
FY97	\$ 146,084.1	FY01	\$ 349,092.0	FY05	\$ 709,573.2
FY98	\$ 231,890.1	FY02	\$ 381,814.2	CHANGE	4.43%

Sales and Use Tax

Six percent on purchases of tangible personal property, public utility service and some rental transactions, which is collected at the retail level.

FY95	\$ 2,810,403.8	FY99	\$ 3,414,847.5	FY03	\$ 4,210,262.5
FY96	\$ 2,965,275.9	FY00	\$ 3,687,291.7	FY04	\$ 4,759,445.3
FY97	\$ 3,145,959.5	FY01	\$ 3,723,138.6	FY05	\$ 5,001,048.9
FY98	\$ 3,278,755.6	FY02	\$ 3,798,489.0	CHANGE	5.08%

Special Fuel Tax

A license tax of \$0.16 per gallon imposed on all special fuel sold or used in producing or generating power for propelling motor vehicles.

FY95	\$ 124,399.8	FY99	\$ 161,779.4	FY03	\$ 172,712.6
FY96	\$ 143,727.0	FY00	\$ 186,794.0	FY04	\$ 183,826.1
FY97	\$ 147,552.8	FY01	\$ 151,335.7	FY05	\$ 193,127.5
FY98	\$ 151,245.0	FY02	\$ 170,308.4	CHANGE	5.06%

Utility Receipts Tax

The Utility Receipts Tax is 1.4 percent on gross receipts from retail utility sales. (**NOTE:** Fiscal Year 2003 figures indicate only one-half of a fiscal year.)

FY95	—	FY99	—	FY03	\$ 75,907.7
FY96	—	FY00	—	FY04	\$ 167,401.1
FY97	—	FY01	—	FY05	\$ 170,814.6
FY98	—	FY02	—	CHANGE	2.04%

MISCELLANEOUS FEES:

Aircraft Registration Fee

All Indiana aircraft are required to be registered with the Aeronautics Section of the Compliance Division where an annual \$10 registration/transfer fee is collected. An additional fee of \$20 or 20 percent (whichever is greater) of the unpaid excise tax is charged on all late registrations. There is also an annual aircraft dealers fee of \$25.

FY95	\$ 70.1	FY99	\$ 65.1	FY03	\$ 76.5
FY96	\$ 68.0	FY00	\$ 79.6	FY04	\$ 75.1
FY97	\$ 68.4	FY01	\$ 118.9	FY05	\$ 100.5
FY98	\$ 70.2	FY02	\$ 94.5	CHANGE	33.82%

Charity Gaming Licensing Fee

Licensing fee for qualified organizations is \$25 for the first license. Second license for the same charity gaming activity is based on gross receipts of previous event. Annual license for distributors is \$2,000. Annual license for manufacturers is \$3,000.

FY95	\$ 3,264.7	FY99	\$ 4,264.6	FY03	\$ 4,208.7
FY96	\$ 3,635.1	FY00	\$ 4,328.0	FY04	\$ 4,038.9
FY97	\$ 3,997.2	FY01	\$ 4,303.4	FY05	\$ 4,020.0
FY98	\$ 3,950.1	FY02	\$ 4,282.5	CHANGE	(0.47%)

Employment Agency Licensing Fee

A person, firm or corporation opening, operating or maintaining an employment agency must pay an annual \$150 fee for each license.

FY95	\$ 40.2	FY99	\$ 51.3	FY03	\$ 49.7
FY96	\$ 42.2	FY00	\$ 51.6	FY04	\$ 43.8
FY97	\$ 37.7	FY01	\$ 54.5	FY05	\$ 51.5
FY98	\$ 53.1	FY02	\$ 57.9	CHANGE	17.58%

Hazardous Chemical Fee

An annual fee is imposed on a facility which must submit to the state an emergency and hazardous chemical inventory form. Fees are \$50, \$100 or \$200, depending on the volume of hazardous chemicals present at the facility during the year.

FY95	\$ 653.8	FY99	\$ 576.4	FY03	\$ 581.7
FY96	\$ 652.2	FY00	\$ 546.2	FY04	\$ 662.0
FY97	\$ 650.5	FY01	\$ 511.3	FY05	\$ 689.3
FY98	\$ 623.1	FY02	\$ 573.4	CHANGE	4.12%

International Registration Plan (IRP) Licensing Fee

Licensing fee for motor carriers based on miles driven in specific jurisdictions.

FY95	—	FY99	\$ 75,941.9	FY03	\$ 82,395.1
FY96	\$ 67,140.5	FY00	\$ 89,320.1	FY04	\$ 86,454.0
FY97	\$ 74,300.4	FY01	\$ 76,728.7	FY05	\$ 95,593.6
FY98	\$ 71,577.9	FY02	\$ 80,293.7	CHANGE	10.57%

Oversize /Overweight Permit Fee

Various categories of permits for motor carriers that are issued for different periods of time, based upon a vehicle's specific dimension and /or size and the travel activity. Fees can range from \$10.00 to over \$400.00.

FY95	—	FY99	\$ 11,528.3	FY03	\$ 11,041.1
FY96	\$ 3,701.8	FY00	\$ 12,782.3	FY04	\$ 11,498.9
FY97	\$ 9,844.3	FY01	\$ 12,358.6	FY05	\$ 12,090.5
FY98	\$11,252.7	FY02	\$ 11,849.5	CHANGE	5.14%

Solid Waste Management Fee

Imposed on the disposal or incineration of solid waste in a final disposal facility within the state at a rate of \$.50 per ton of waste generated in the state. For solid waste generated outside the state, the rate is the greater of \$.50 per ton or the cost per ton of disposing the solid waste, including the tipping fees and state and local government fees, in the final disposal facility that is closest to the area in which the solid waste was generated, minus the fee actually charged for the disposal or incineration of the solid waste by the owner or operator of the final disposal facility.

FY95	\$ 3,789.6	FY99	\$ 4,612.7	FY03	\$ 4,002.8
FY96	\$ 3,850.6	FY00	\$ 4,516.8	FY04	\$ 4,358.6
FY97	\$ 4,494.4	FY01	\$ 4,318.0	FY05	\$ 5,173.2
FY98	\$ 4,623.0	FY02	\$ 4,320.3	CHANGE	18.69%

Underground Storage Tank Fee

An annual fee of \$200 per tank is imposed on owners of underground storage tanks. In addition, there is an annual registration fee of \$90 for each underground petroleum storage tank; and \$45 for each underground storage tank containing regulated substances other than petroleum.

FY95	\$ 8,344.3	FY99	\$ 26,409.5	FY03	\$ 35,992.1
FY96	\$ 6,580.6	FY00	\$ 27,709.5	FY04	\$ 32,065.1
FY97	\$ 8,481.2	FY01	\$ 32,467.5	FY05	\$ 29,396.5
FY98	\$28,758.5	FY02	\$ 24,306.6	CHANGE	(8.32%)

Waste Tire Management Fee

A \$.25 tire fee is assessed on each new tire sold at retail and each new tire mounted on a vehicle at the time a vehicle is sold. Imposed on tires for self-propelled motor vehicles only.

FY95	\$ 1,304.1	FY99	\$ 1,963.8	FY03	\$ 1,079.3
FY96	\$ 1,266.7	FY00	\$ 3,203.6	FY04	\$ 1,612.0
FY97	\$ 1,333.2	FY01	\$ 911.8	FY05	\$ 1,860.0
FY98	\$ 1,253.6	FY02	\$ 613.8	CHANGE	15.38%

AUDIT DIVISION STATISTICAL STUDY

The Audit Division Statistical Study addresses the requirements set forth by IC 6-8.1-14-4 (2). The information is based on 100 percent of the audits completed, taxpayers assisted and special projects conducted during Fiscal Year 2005.

See Page 51 for an index of exhibits and charts included.

- Taxpayers Served in District Offices, Pg. 46
- Gross Income Tax Violations, Pg. 47
- Sales/Use Tax Violations, Pg. 47
- Corporate Adjusted Gross Income Tax Violations, Pg. 47
- Dollar Amounts of Tax Assessed, Pg. 48
- Industry/Business Most Frequently in Violation, Pg. 49
- Special Tax Violations, Pg. 49
- Miscellaneous Code Violations, Pg. 50
- Number of Years in the Audit Period, Pg. 50
- Use of Professional Tax Preparation Assistance, Pg. 50
- Filing of Appropriate Tax Returns, Pg. 50

● TAXPAYERS SERVED IN DISTRICT OFFICES

Taxpayer assistance is available in all district offices. Each office has a taxpayer assistance supervisor and assistant taxpayer assistance supervisor who perform taxpayer service functions, as well as other office support responsibilities. Each office has at least one field investigator who supports taxpayer assistance and performs collection functions in the district. Contract employees are available throughout the year to support taxpayer assistance.

The "Taxpayer Assistance Report-Fiscal Year 2005" (Exhibit A) provides the number of taxpayers assisted (in person and by telephone) and the amount of money collected and assessed at each office by the taxpayer assistance program. Exhibit A reveals that during Fiscal Year 2005, district offices assisted 130,103 taxpayers in person and 151,122 taxpayers through telephone contact. Total number of taxpayers served by the district offices were 281,225. The district office in Fort Wayne served 20,397 taxpayers in person, the highest number of any district office. The Columbus District Office served 18,378 taxpayers in person, the second highest total.

The Fort Wayne District Office served 23,859 taxpayers by telephone, while the Merrillville District Office served 20,928 taxpayers by telephone. This was the highest number of telephone contacts among the district offices, totaling 30 percent of total taxpayer telephone contacts. The Fort Wayne District Office served a total of 44,256 taxpayers by telephone and walk-in assistance, while Clarksville served 36,309 taxpayers by telephone and walk-in assistance.

"Field Auditors Taxpayer Assistance/Special Project Statistics" (Exhibit B) provides the number of hours devoted by field auditors in the district offices to assisting taxpayers and conducting special projects. The exhibit reveals that 8,527 auditor hours were channeled in this direction.

Gross Income Tax Violations

The most frequently violated gross income tax rule in the 2005 study was 45 IAC 1.1-2-4. Rule 2-4 defines taxable high rate income of utilities, display advertising, sale of real estate, rentals and extension of credit. This rule accounted for 21 (13.91 percent) violations of gross income tax rules in the 2005 study. Rule 45 IAC 1.1-2-4 and Rule 45 IAC 1.1-2-5 were equally rated in the 2004 report, with each Rule accounting for 26 (14.69 percent) of the violations. Rule 2-4 had been the most violated rule in the 2003 report with 16.78 percent of violations.

Ranking second in gross income tax violations was 45 IAC 1.1-2-2. Rule 2-2 defines taxable low rate gross income of retail and wholesale sales, display advertising, dry cleaning and laundry service, rental of water softening equipment, rental of rooms, lodging, booths and similar accommodations and commercial printing. Violations (18) of Rule 2.2 accounted for 11.92 percent of all violations of the gross income tax rules in the 2005 statistics. Rule 2-2 and Rule 3-3 tied for second in violations in the 2004 report with each Rule, accounting for 11.30 percent of violations. Rule 2-5 had been the second most violated gross income tax rule in the 2003 study with statistics showing 43 (14.73 percent) infractions.

Ranking third with 16 (10.60 percent) infractions of the gross income tax rule violations was Rule 45 IAC 1.1-2-1. This rule defines Indiana source income. Rule 2-1 was the third most frequently violated rule in 2004 (5.08 percent). Rule 2-2 (defined above) ranked third in the 2003 study with 37 (12.67 percent) violations.

Sales/Use Tax Violations

The most frequently violated sales and use tax rule was 45 IAC 2.2-3-20. Rule 3-20 states that if the seller of tangible personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the Department. This rule produced 550 violations (16.71 percent) of the sales and use tax infractions. In the 2004 study, Rule 3-20 accounted for 12.28 percent of sales and use tax infractions and ranked first. This rule had also ranked first in the 2003 study, accounting for 14.67 percent of sales and use tax violations. In the 2002 study, Rule 3-20 ranked first and accounted for 12.72 percent of sales and use tax infractions.

The second most frequently violated sales and use tax rule was 45 IAC 2.2-3-4. Rule 3-4 imposes use tax on "tangible personal property, purchased in Indiana or elsewhere in a retail transaction and stored, used or otherwise consumed in Indiana...unless the Indiana state gross retail tax (sales tax) has been collected at the point of purchase." This rule accounted for 383 infractions or 11.64 percent of sales and use tax statute violations. Rule 3-4 ranked second in the 2004 study with 239 infractions (11.38 percent). The second most violated sales and use rule in 2003 was 45 IAC 2.2-3-4 (10.18 percent). Rule 5-8 (defined below) had been the second most violated rule in the 2002 study, accounting for 535 (11.25 percent) violations.

The third most violated rule for the 2005 fiscal year was 45 IAC 2.2-5-8. Rule 5-8 clarifies sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools and equipment used in direct production and other activities. Failure of taxpayers to comply with this rule accounted for 308 or 9.36 percent of the sales and use tax infractions. Rule 5-8 ranked third in the 2004 and 2003 studies with 195 (9.29 percent) and 363 (9.77 percent) infractions, respectively. Rule 3-4 had ranked third in the 2002 study with 518 (10.89 percent) violations.

Corporate Adjusted Gross Income Tax Violations

Corporate taxpayers violated adjusted gross income Rule 45 IAC 3.1-1-2 more than any other rule. This rule defines gross income for Indiana residents filing individual returns as all income defined by Section 61 of the Internal Revenue Code. Violations (64) of this rule accounted for 15.27 percent of the total violations in the 2005 study. Rule 1-8 (defined below) had been the most violated rule in 2004, 2003 and 2002 studies with 40 (15.81 percent), 76 (14.10 percent) and 94 (12.21 percent) infractions, respectively.

Rule 45 IAC 3.1-1-1 was the second most frequently violated rule under this study. This rule defines adjusted gross income as noted in Internal Revenue Code Section 62. These violations (58) accounted for 13.84 percent of the total violations for 2005. Rule 1-1 did not appear in the top three violated rules in the 2004 study. Rule 1-

1 had ranked second in the 2003 study with 63 violations, accounting for 11.69 percent of infractions. Ranking second in the 2004 report was 45 IAC 3.1-1-9 (net operating loss deduction) with 10.67 percent of violations. Rule 1-9 had ranked second in the 2002 study with 79 (10.26 percent) violations.

The third most frequently violated adjusted gross income rule was 45 IAC 3.1-1-8. Rule 1-8 states that taxable income as defined in the Internal Revenue Code is modified in several ways to arrive at Indiana adjusted gross income. Violations (54) of this rule accounted for 12.89 percent of the violations of adjusted gross income tax rules. The 2004 and 2002 studies revealed 45 IAC 3.1-1-97 ranked third with 26 (10.28 percent) and 72 (9.35 percent) of the violations, respectively. The third most violated rule in the 2003 study was 45 IAC 3.1-1-9, accounting for 61 (11.32 percent) infractions.

Dollar Amounts of Tax Assessed

Exhibits C, D and E display the amount of assessments (refunds) of the gross income tax, sales tax and adjusted gross income tax administrative rules, respectively. "Total assessments" for any tax type represent gross assessments less amounts refunded.

The amount assessed or refunded for each of the most frequent violations and the percentage of the amount to total net assessments are presented below:

Gross Income Tax—Exhibit C:

	Amount Assessed	Percentage of All Assessments
45 IAC 1.1-2-4	\$1,714,988	10.41%
45 IAC 1.1-2-2	\$ 16,971	.11%
45 IAC 1.1-2-1	\$1,201,391	7.29%

Sales/Use Tax—Exhibit D:

	Amount Assessed	Percentage of All Assessments
45 IAC 2.2-3-20	\$3,085,671	18.17%
45 IAC 2.2-3-4	\$1,771,875	10.44%
45 IAC 2.2-5-8	\$ 986,290	5.81%

Corporate Adjusted Gross Income Tax—Exhibit E:

	Amount Assessed	Percentage of All Assessments
45 IAC 3.1-1-2	\$ 162,234	.66%
45 IAC 3.1-1-1	\$ 497,422	2.03%
45 IAC 3.1-1-8	\$6,738,981	27.49%

Industry/Business Most Frequently in Violation

Gross Income Tax

Taxpayers engaged in information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services most frequently violated the gross income tax rules. This group committed 44 violations or 29.14 percent of the total violations. The gross income tax rules most frequently violated by this group of taxpayers are 45 IAC 1.1-2-1 and 45 IAC 1.1-2-4 (seven violations each). Rule 2-1 defines "Indiana source income," while Rule 2-4 defines "high rate income."

The second largest number of gross income tax violations was committed by taxpayers in the manufacturing business. This group committed 41 infractions, or 27.15 percent of the total violations for 2005. The most frequently violated rule of this group was 45 IAC 1.1-3-3, which defines exempt gross income derived from business conducted in interstate commerce. The manufacturing business had ranked first in infractions for the previous twelve years.

Sales and Use Tax

For the 2005 reporting period repair, personal and other service businesses accounted for the most infractions. They accounted for 713 violations, or 21.67 percent of the total sales and use tax violations. The most frequently violated rule by these taxpayers was 45 IAC 2.2-3-20 that states if a seller of tangible personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the Department.

Manufacturing businesses had the second most frequency of violations for the sales and use tax rules. There were 586 violations committed by this group, representing 17.81 percent of the total violations. The rule most frequently violated by this group was 45 IAC 2.2-5-8, which clarifies sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools and equipment used in direct production and other activities.

Adjusted Gross Income Tax

Repair, personal service and other service providers with 164 infractions were the most frequent violators of adjusted gross income tax rules. This figure represents 39.14 percent of the total adjusted gross income tax violations. Adjusted gross income for individuals, defined by 45 IAC 3.1-1-2, accounted for the most infractions in this class.

Manufacturing businesses ranked second in violation of the adjusted gross income rules. They committed 57 infractions, or 13.60 percent of the adjusted gross income tax violations. Rule 1-8 (45 IAC 3.1-1-8), which discusses modifications of federal adjusted gross income in determining Indiana adjusted gross income, was the most violated rule by this industry group.

Special Tax Violations

Exhibit G provides the special tax assessments and refunds by citation.

Article VIII (citation R800 on exhibit) of the International Fuel Tax Agreement (IFTA) was the most frequently violated special tax item in the study. It specifies the taxable event is the consumption of motor fuels in the propulsion of qualified motor vehicles, except fuel consumed that is exempt from taxation by a jurisdiction. All motor fuel acquired that is normally subject to consumption tax is taxable, unless proof to the contrary is provided by the licensee. Article VIII was violated 235 times and yielded \$327,854 in net assessments for the State of Indiana. This represents 23.74 percent of total violations and 6.12 percent of net assessments.

Article X (citation R1000 on exhibit) of the International Fuel Tax Agreement (IFTA) was the second most frequently violated section of the special tax statutes. This Article discusses how taxpayers can obtain credit for tax previously paid on purchases of fuel at the pump. It also lists the records needed to substantiate the refund request. This

article was violated 221 times, accounting for 22.32 percent of the total violations. These violations resulted in net assessments of \$162,948.

The taxpayer group most frequently in violation of the special tax statutes and IFTA Articles was the repair, personal and other service industries. This group committed 432 violations, accounting for 43.64 percent of the total infractions. Article VIII of the International Fuel Tax Agreement was most frequently violated by the repair, personal and other service industries.

Miscellaneous Code Violations

Exhibit F provides the assessment amounts for the following:

- Financial Institutions Tax
- Tax Administration
- Food and Beverage Tax
- Innkeeper's Tax
- Charity Gaming

A review of the Miscellaneous Code violations data reveals that 45 IAC 15-9-2 was the most frequently violated Rule with 12 (14.63 percent) infractions in the Fiscal Year 2005 study. These violations yielded \$205,125 in net assessments. Rule 9-2 discusses the statute of limitations for refunds. In the 2004 study, IC 6-8.1-4-2 (which discusses examination of records) produced 16 (12.12 percent) infractions. IC 6-8.1-9-1 was the most violated rule in the 2003 study with 57 (18.45 percent). IC 6-8.1-4-2 was the most violated rule in the 2002 study, accounting for 24 (14.46 percent) infractions.

The nine violations of 45 IAC 15-4-1 was the second most violated rule in this category in 2005. It yielded a total of (\$47,384) in net refunds. Rule 4-1 defines access to taxpayer records. Nine rule violations accounted for 10.98 percent of the total infractions in this category.

Number of Years in the Audit Period

The audit period consistently averages three years.

Use of Professional Tax Preparation Assistance

The services of professional preparers were used in 75 percent of the corporate income tax returns and 11 percent of the sales tax returns. Statistics show that 26 percent of individuals use a professional preparer to complete the returns.

Filing of Appropriate Tax Returns

Rule 45 IAC 3.1-1-92 (Exhibit E) requires qualifying corporations to make estimated tax payments. Taxpayers in violation of this rule either failed to file estimated income tax returns or failed to remit the appropriate amount of tax. For the fiscal years ending in 2004 and 2005, no infractions were found. The 2003 study indicated eight violations of this rule, resulting in assessments in the amount of \$12,863 and refunds totaling (\$110,617).

Indiana Code 6-8.1-10-2.1 (Exhibit F) revealed no violations during the 2005 study period. This section specifies the penalty to be imposed if a taxpayer fails to file an appropriate return or pay the full amount of tax due. Violations of this section in the 2004, 2003 and 2002 studies were also zero.

EXHIBITS

AUDIT DIVISION

Taxpayer Assistance Report -- District Offices Taxpayers Served in District Offices	Exhibit A	Page 52 Page 52
Field Auditors Taxpayer Assistance/Special Projects	Exhibit B	Page 53
Standard Industrial Codes		Page 53
Dollars Assessed in 45 IAC Citations by Industrial Code Gross Income Tax Audits	Exhibit C	Pages 54
Gross Income Tax Violations by Industry Group Gross Income Tax Dollars Assessed by Industry Group		Page 55 Page 55
Dollars Assessed in 45 IAC Citations by Industrial Code Sales and Use Tax Audits	Exhibit D	Pages 56-57
Sales and Use Tax Violations by Industry Group Sales and Use Tax Dollars Assessed by Industry Group		Page 58 Page 58
Dollars Assessed in 45 IAC Citations by Industrial Code Adjusted Gross Income Tax Audits	Exhibit E	Page 59
Adjusted Gross Income Tax Violations by Industry Group Adjusted Gross Income Tax Dollars Assessed by Industry Group		Page 60 Page 60
Dollars Assessed for Miscellaneous Code Violations by Industrial Code	Exhibit F	Page 61
Miscellaneous Code Violations by Industry Group Miscellaneous Tax Dollars Assessed by Industry Group		Page 62 Page 62
Dollars Assessed in Code Article Citations by Industrial Code Special Tax Audits	Exhibit G	Page 63
Special Tax Violations by Industry Group Special Tax Dollars Assessed by Industry Group		Page 64 Page 64

COMPLIANCE DIVISION

Bankruptcy 20-Year Comparison -- Collections	Page 65
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2004 INDIANA INDIVIDUAL INCOME TAX BREAKDOWN BY FILING METHOD

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EXHIBIT A
Taxpayer Assistance Report - Fiscal Year 2005
Audit Division District Offices

	South Bend	Fort Wayne	Lafayette	Kokomo	Muncie	Terre Haute	Bloomington	Columbus	Clarksville	Evansville	Merrillville	Totals
Walk-in Assistance	9,073	20,397	8,601	11,090	7,172	6,265	9,223	18,378	18,282	10,273	11,349	130,103
Telephone Assistance	8,875	23,859	8,316	10,157	13,771	9,267	12,915	14,200	18,027	10,807	20,928	151,122
Totals	17,948	44,256	16,917	21,247	20,943	15,532	22,138	32,578	36,309	21,080	32,277	281,225
Collected/Assessed	\$2,237,076	\$2,716,760	\$1,742,030	\$8,277,341	\$2,583,122	\$5,360,848	\$8,508,439	\$5,439,377	\$7,128,475	\$4,330,000	\$4,948,863	\$53,272,331

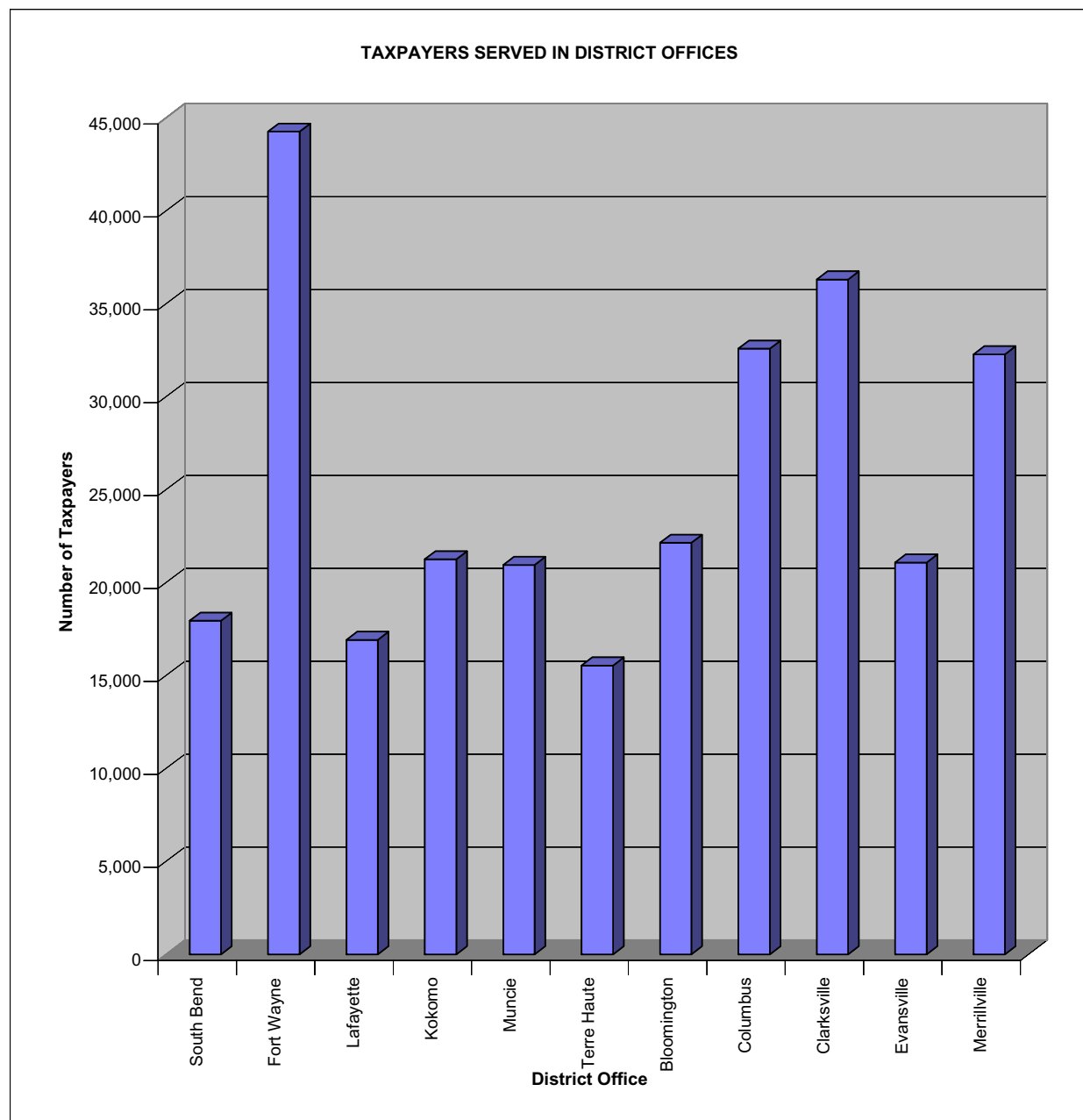


Exhibit B

Field Auditors Taxpayer Assistance/Special Projects Statistics

	Total Hours
South Bend, Fort Wayne, Merrillville	3,059
Lafayette, Kokomo, Muncie	1,903
Indianapolis*	15
Terre Haute, Bloomington, Columbus, Clarksville, Evansville	2,608
Out of State	0
Special Tax Auditors	942
	8,527

*Represents special project only. Taxpayer assistance provided by Taxpayer Services Division

This field auditor information was gathered using data from regional reports indicating hours charged to Administrative Special Projects and Administrative Taxpayer Services.

Standard Industrial Codes

The Standard Industrial Codes (SIC) used in the Audit Division reports and exhibits are based on the North American Industry Classification System (NAICS). Refer to the following text to explain the industry classification numbering system.

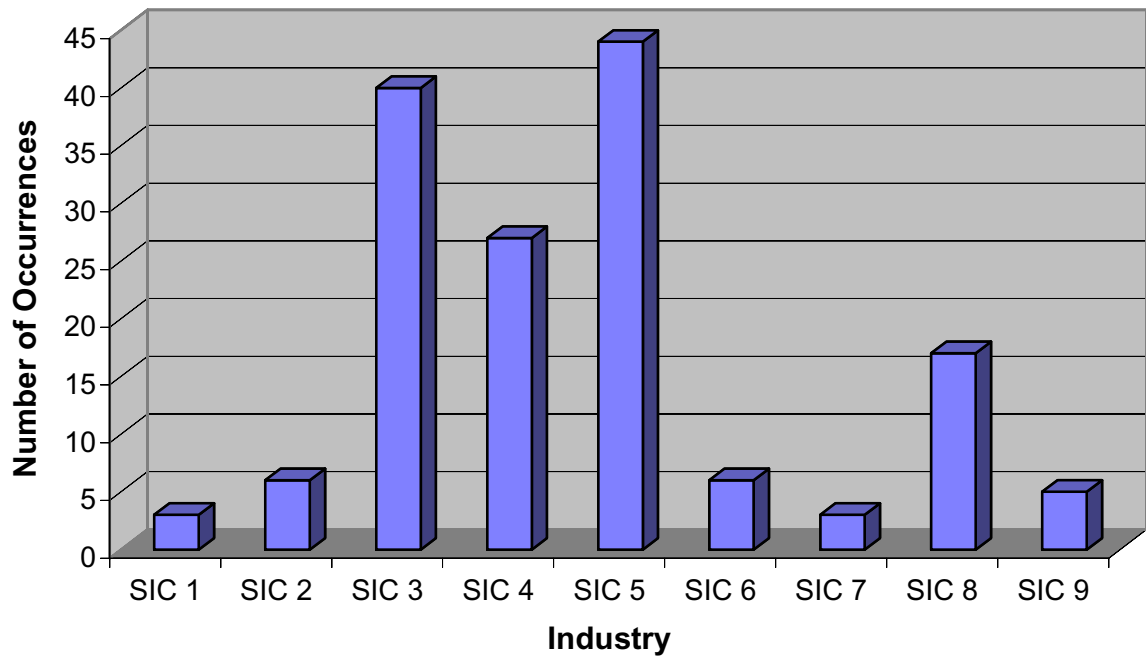
Class	Explanation
1	Agricultural; Forestry
2	Mining; Oil and Gas Extraction; Construction
3	Manufacturing
4	Wholesale; Retail; Transportation
5	Information; Publishing; Telecommunications; Finance; Rental Insurance; Real Estate; Leasing; Professional Services
6	Education; Health Services
7	Arts; Entertainment; Recreation; Food Service; Accommodations
8	Repair; Personal Services; Other Services
9	Public Administration

EXHIBIT C
Dollars Assessed in 45 IAC Citations by Industrial Code
Gross Income Tax Audits

Sum of Results	SIC*									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 1.1-1-10			(353,214)	6,556	(84,581)					(431,239)
45 IAC 1.1-1-11				298						298
45 IAC 1.1-1-14					(38,611)					(38,611)
45 IAC 1.1-1-21					243,484			2,187		245,671
45 IAC 1.1-1-22	1,178									1,178
45 IAC 1.1-1-23			15,679							15,679
45 IAC 1.1-1-24				1,349						1,349
45 IAC 1.1-1-3	(225,775)		32,965					8,818,335	993,642	9,619,167
45 IAC 1.1-1-8			882							882
45 IAC 1.1-2-1		128,296	34,300		(29,588)			649,738	418,645	1,201,391
45 IAC 1.1-2-12					229,011	(6,248)				222,763
45 IAC 1.1-2-13			55,274	(161,558)	19,530	571,397				484,643
45 IAC 1.1-2-2		7,347	430,140	(93,028)	32,638	(47,826)		(312,300)		16,971
45 IAC 1.1-2-23			(64,000)							(64,000)
45 IAC 1.1-2-4		13,889	1,499,236	32,564	32,156		88,580	48,563		1,714,988
45 IAC 1.1-2-5	13,504		301,565	8,796	929,651			280,026		1,533,542
45 IAC 1.1-2-8			5,003	740,771	128,982		1,099			875,855
45 IAC 1.1-2-9								2,929		2,929
45 IAC 1.1-3			53,069							53,069
45 IAC 1.1-3-10				(1,499)						(1,499)
45 IAC 1.1-3-11			(3,574)	(11,929)	44,848					29,345
45 IAC 1.1-3-12			(2,636)							(2,636)
45 IAC 1.1-3-3			577,808	16,088	(82,650)			204,261		715,507
45 IAC 1.1-3-5				3,106						3,106
45 IAC 1.1-3-9					11,723					11,723
45 IAC 1.1-4-1			(17)	(12)	(12)		(12)	16,000		15,947
45 IAC 1.1-4-2					(2,487)					(2,487)
45 IAC 1.1-5-3			88,944		333				117,658	206,935
45 IAC 1.1-6-2				47,544						47,544
Grand Total	(211,093)	149,532	2,671,424	589,046	1,434,427	517,323	89,667	9,709,739	1,529,945	16,480,010

*See accompanying text for detail of SIC categories

Gross Income Tax Violations by Industry Group



Gross Income Tax Assessed by Industry Group

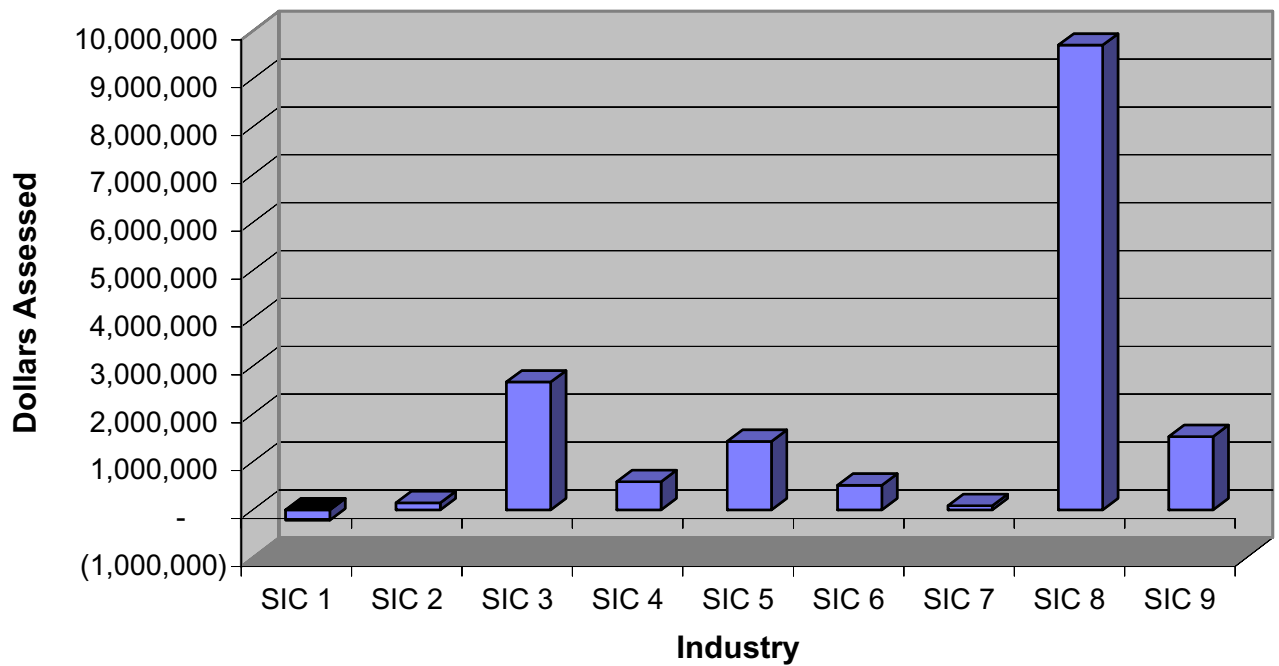


EXHIBIT D (Pg. 1 of 2)
Dollars Assessed in 45 IAC Citations by Industrial Code
Sales and Use Tax Audits

Sum of Results	SIC*									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 2.2-1-1		6,467	37,012	53,858	47,080	315	22,047	8,119		174,898
45 IAC 2.2-1-12		461								461
45 IAC 2.2-2			740							740
45 IAC 2.2-2-1	10	3,534	857	10,096	200,490	33	183,326	61,536	301	460,183
45 IAC 2.2-2-2	12,429	13,329	6,616	109,038	77,910	150	64,962	127,066		411,500
45 IAC 2.2-2-20		362								362
45 IAC 2.2-2-3				119	15,028		(52,529)			(37,382)
45 IAC 2.2-3				3,189						3,189
45 IAC 2.2-3-1			2,856							2,856
45 IAC 2.2-3-10		(24)			(10,087)					(10,111)
45 IAC 2.2-3-11			298							298
45 IAC 2.2-3-12	36,376	91,727	464	15,341	6,517		290	254,152		404,867
45 IAC 2.2-3-13	17,422	5,993	5,006	2,779	46,052	151	1,131	10,289		88,823
45 IAC 2.2-3-14					(1,202)		(473)	(8,210)		(9,885)
45 IAC 2.2-3-15	1,695	2,392	5,302	11,480	3,889		517	30,275		55,550
45 IAC 2.2-3-16		(5,869)								(5,869)
45 IAC 2.2-3-18							304			304
45 IAC 2.2-3-20	(250)	55,326	578,740	170,236	915,896	80,736	472,529	811,187	1,271	3,085,671
45 IAC 2.2-3-21				12,649	366			25		13,040
45 IAC 2.2-3-24		9,831		(1,236)				12,127		20,722
45 IAC 2.2-3-25				65,601	130		1,611	11,386		78,728
45 IAC 2.2-3-27	(29,320)				1,814	8,277	1,179	2,081		(15,969)
45 IAC 2.2-3-29								1,105		1,105
45 IAC 2.2-3-3				1,303	11,924			5,060		18,287
45 IAC 2.2-3-4	17,287	122,328	555,998	255,557	290,987	19,085	166,979	343,654		1,771,875
45 IAC 2.2-3-5	1,222	1,785	450	8,775	22,516		695	10,985		46,428
45 IAC 2.2-3-6				90			78,913			79,003
45 IAC 2.2-3-8	282	2,222	11,478	242	(6,710)	431	32	38,781		46,758
45 IAC 2.2-3-9	59,123	44,326	48,207	39,754	586	24,210	13,615	8,488	1,452	239,761
45 IAC 2.2-4-1	8,705	1,500	15,529	470,816	476,163	90	151,991	78,493		1,203,287
45 IAC 2.2-4-11				13	(4,691)					(4,678)
45 IAC 2.2-4-13	(3,900)	(21,872)	(369,565)	(59,446)	1,263,229		(2,747)	(719,722)		85,977
45 IAC 2.2-4-14				1,463						1,463
45 IAC 2.2-4-15				12,460	6,870					19,330
45 IAC 2.2-4-16					(66,479)					(66,479)
45 IAC 2.2-4-2	(2,897)	3,046	(1,325)	63,942	30,215	(1,442)	2,623	57,968		152,130
45 IAC 2.2-4-20	50									50
45 IAC 2.2-4-21	6,072	21,942		270	2,344		42,648	2,170		75,446
45 IAC 2.2-4-22	7,064	226,428	721	17,093	47,820	396		57,005		356,527
45 IAC 2.2-4-23	64	2,882								2,946
45 IAC 2.2-4-25				1,061						1,061
45 IAC 2.2-4-26	19,768	40,727	7,702	13,748	19,429			2,629	375	104,378
45 IAC 2.2-4-27	1,735	35,005	15,600	519,783	27,885	30,171	136,039	166,070	133	932,421
45 IAC 2.2-4-28				37,112			40,090			77,202
45 IAC 2.2-4-3	(1,616)	307	149		13			53		(1,094)
45 IAC 2.2-4-30							6,676	81,163		87,839
45 IAC 2.2-4-32								472,930		472,930
45 IAC 2.2-4-33								80,094		80,094
45 IAC 2.2-4-35								288		288
45 IAC 2.2-4-4					(99)		(939)	(42,399)		(43,437)
45 IAC 2.2-4-5			(170)							(170)
45 IAC 2.2-4-6								4,951		4,951
45 IAC 2.2-4-8	14	10,250		5,545	4,044		286,848	8,746		315,447
45 IAC 2.2-4-9			8		54	104				166
45 IAC 2.2-5-8		39,957								39,957
45 IAC 2.2-5-1	87			7						94
45 IAC 2.2-5-10		(254)	(7,010)					68,264		61,000

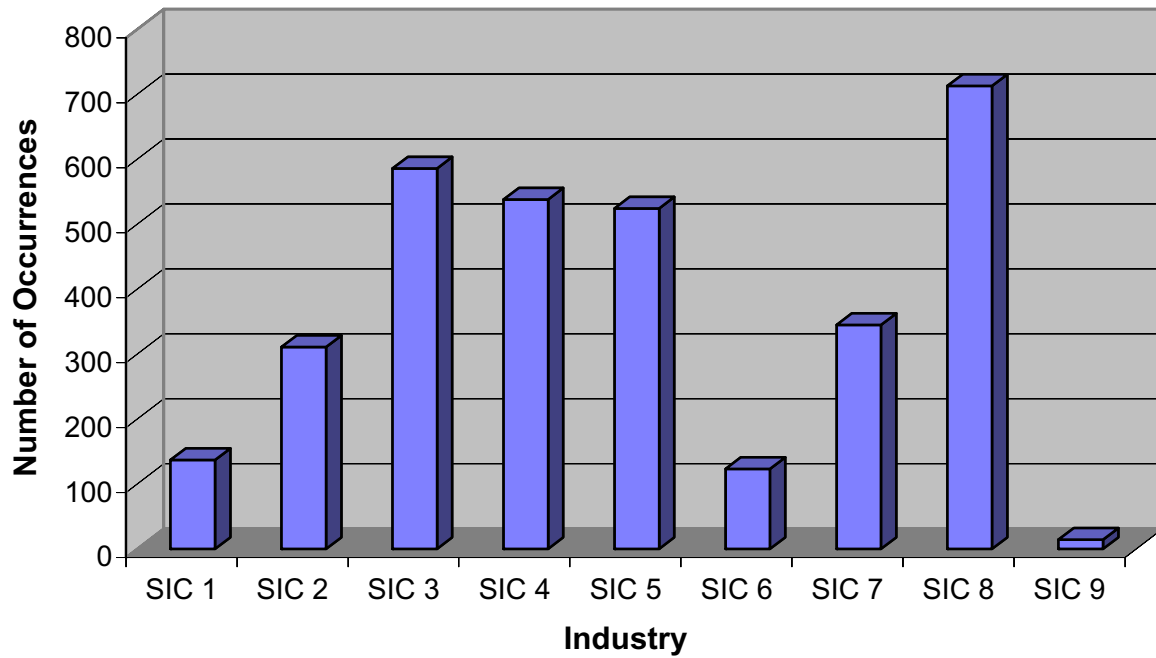
*See accompanying text for detail of SIC categories

EXHIBIT D (Pg. 2 of 2)
Dollars Assessed in 45 IAC Citations by Industrial Code
Sales and Use Tax Audits

45 IAC 2.2-5-12	823	(21,378)	30,418	(660)		105	(21,738)	18,239		5,809
45 IAC 2.2-5-13	(1,272)		(5,239)					5,385		(1,126)
45 IAC 2.2-5-14		(3,644)	(8,578)	(2,176)				(640)		(15,038)
45 IAC 2.2-5-15	(1,619)	(88,803)	(5,004)	(23,828)	(13,670)	(497)	(55,537)	(59,605)		(248,563)
45 IAC 2.2-5-16		620	123,344	(5,277)	(1,657)		(534)	716		117,212
45 IAC 2.2-5-17					910,515					910,515
45 IAC 2.2-5-18					130,081					130,081
45 IAC 2.2-5-20					117,406			(75,414)	60	42,052
45 IAC 2.2-5-24				(886)						(886)
45 IAC 2.2-5-26	342	6,030	7,505	3,139	24,696	6,749	2,820	18,339	332	69,952
45 IAC 2.2-5-28			(772)		43,574	61		533		43,396
45 IAC 2.2-5-3	3,123			1,111	102			(214)		4,122
45 IAC 2.2-5-31								2,183		2,183
45 IAC 2.2-5-35					(3,357)					(3,357)
45 IAC 2.2-5-36				213	2,581	129,733	1,684	42,021	142	176,374
45 IAC 2.2-5-37								1,344		1,344
45 IAC 2.2-5-38							(44,223)			(44,223)
45 IAC 2.2-5-39			(183)		54		(136,615)	(3,615)		(140,359)
45 IAC 2.2-5-4	8,983			1,167	214		(3,400)	7,248		14,212
45 IAC 2.2-5-40			4		142		15	13		174
45 IAC 2.2-5-41				606	55					661
45 IAC 2.2-5-42			821	114	1,635			157		2,727
45 IAC 2.2-5-43					14		779,268	12,568		791,850
45 IAC 2.2-5-45		18	33	235	3,679		4,134	42,243		50,342
45 IAC 2.2-5-46				(7,677)			102			(7,575)
45 IAC 2.2-5-5	1,152			53				3,670		4,875
45 IAC 2.2-5-53		(221)						(135,570)		(135,791)
45 IAC 2.2-5-54		(2,854)		9,031		664				6,841
45 IAC 2.2-5-55					4,231		90	53		4,374
45 IAC 2.2-5-57					7,193		4,842			12,035
45 IAC 2.2-5-6	1,351				25,987					27,338
45 IAC 2.2-5-61	(4,177)			(97,283)				388		(101,072)
45 IAC 2.2-5-7	480		1,518							1,998
45 IAC 2.2-5-70			(215)					(1,748)		(1,963)
45 IAC 2.2-5-8	2,968	74,750	(643,177)	631,284	70,683		9,306	840,476		986,290
45 IAC 2.2-5-9		21,517						(2,295)		19,222
45 IAC 2.2-6								407		407
45 IAC 2.2-6-1	5,312	(147,884)	694	27,769	724	488	47,495	223,949		158,547
45 IAC 2.2-6-12				1,015,003	1,376,531	110,060	(1,552)	19,427		2,519,469
45 IAC 2.2-6-13				812						812
45 IAC 2.2-6-14		132	1	23	2,685			1,149		3,990
45 IAC 2.2-6-16					31,429					31,429
45 IAC 2.2-6-2				1,180						1,180
45 IAC 2.2-6-4								10,818		10,818
45 IAC 2.2-6-43							819			819
45 IAC 2.2-6-8	12,463	16,880	50,172	995,632	259,981	(1,485)	144,752	203,007		1,681,402
45 IAC 2.2-7-2				128,226	13,401	(197)	259	14,470		156,159
45 IAC 2.2-7-3								3,924		3,924
45 IAC 2.2-7-5				87						87
45 IAC 2.2-7-6				(668)	(117,693)		(2,892)	(1,956,782)		(2,078,035)
45 IAC 2.2-7-7								(2,629)		(2,629)
45 IAC 2.2-7-8				176						176
45 IAC 2.2-8-12	126	32,818	50,040	252,367	433,821	41,581	15,233	35,761		861,747
45 IAC 2.2-8-2		25	50			25				100
45 IAC 2.2-8-6				211						211
45 IAC 2.2-8-7			17,530							17,530
45 IAC 2.2-9-5				46				19		65
Grand Total	181,477	602,114	534,625	4,771,305	6,756,483	449,994	2,362,685	1,316,804	4,066	16,979,553

*See accompanying text for detail of SIC categories

Sales and Use Tax Violations by Industry Group



Sales and Use Tax Violations by Industry Group

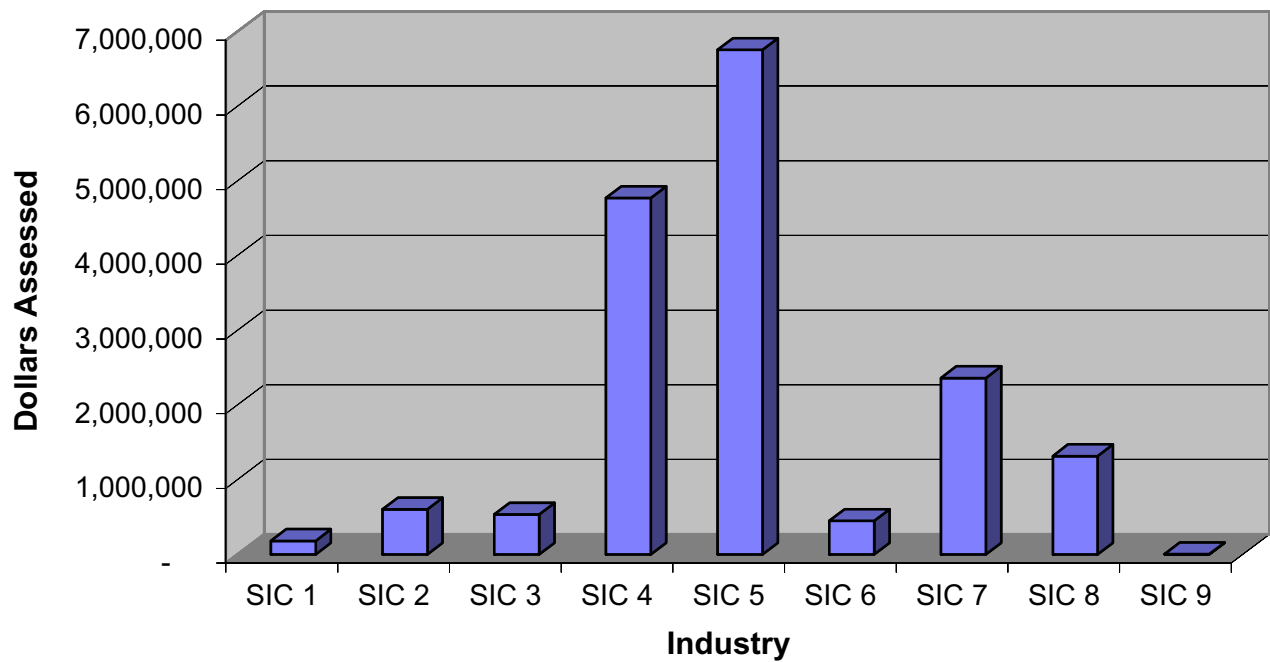
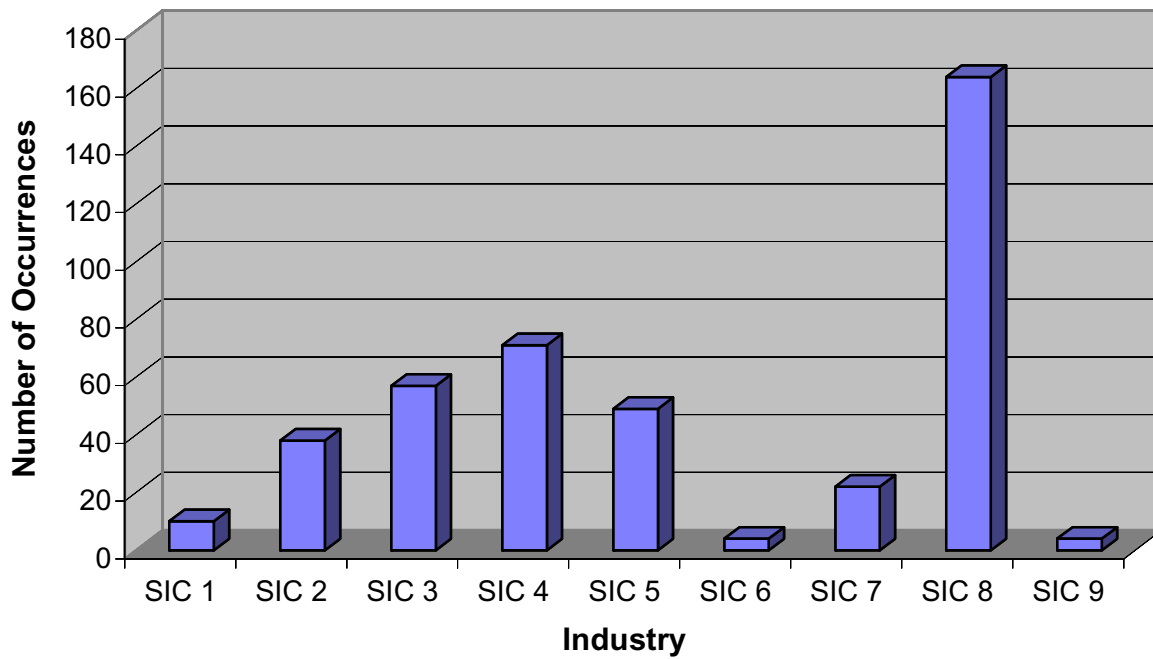


EXHIBIT E
Dollars Assessed in 45 IAC Citations by Industrial Code
Adjusted Gross Income Tax

Sum of Results	SIC*									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 3.1-1			(32,774)		(3,783)			61		(36,496)
45 IAC 3.1-1-1	126,332	33,936		11,062	15,778	182,153	25,351	102,810		497,422
45 IAC 3.1-1-100							409			409
45 IAC 3.1-1-106	1,427							4,498		5,925
45 IAC 3.1-1-108					27,604					27,604
45 IAC 3.1-1-109			7,913	9,757			765			18,435
45 IAC 3.1-1-11			2,654							2,654
45 IAC 3.1-1-111				7,871	(440)					7,431
45 IAC 3.1-1-1-2								1,916		1,916
45 IAC 3.1-1-13			85,000							85,000
45 IAC 3.1-1-153		(3,048)	(37,658)	1,200	7,380					(32,126)
45 IAC 3.1-1-19					2,928					2,928
45 IAC 3.1-1-2	12,387	6,866		32,276	9,652		1,086	99,967		162,234
45 IAC 3.1-1-25		83						23,279		23,362
45 IAC 3.1-1-29			(2,116)		4,572,415			914,651		5,484,950
45 IAC 3.1-1-3				1,540	(8,282)			6,403		(339)
45 IAC 3.1-1-36							(15,032)	18,412		3,380
45 IAC 3.1-1-37			(101,552)							(101,552)
45 IAC 3.1-1-38				9,079	2,677					11,756
45 IAC 3.1-1-39			(87,947)	(1,271)	55,657		24,438			(9,123)
45 IAC 3.1-1-4		732			339					1,071
45 IAC 3.1-1-40		100,983		4,517			700			106,200
45 IAC 3.1-1-41				(36)	(15,310)					(15,346)
45 IAC 3.1-1-43			188,675	3,295						191,970
45 IAC 3.1-1-44					564					564
45 IAC 3.1-1-45			(509)	502						(7)
45 IAC 3.1-1-48				3,011	1,198					4,209
45 IAC 3.1-1-5		(814)			15,355		75	2,219,860		2,234,476
45 IAC 3.1-1-50			(15,622)	(1,827)	155					(17,294)
45 IAC 3.1-1-51			54,133	6,363						60,496
45 IAC 3.1-1-52			35,497		(324,258)			(97,157)		(385,918)
45 IAC 3.1-1-53			149,457	132,158	12,919			84,171		378,705
45 IAC 3.1-1-55			472,249		1,304,746					1,776,995
45 IAC 3.1-1-59			114,218							114,218
45 IAC 3.1-1-62	503,947				158,935			12,000		674,882
45 IAC 3.1-1-65							92,775	273,238		366,013
45 IAC 3.1-1-66								1,330		1,330
45 IAC 3.1-1-67								505		505
45 IAC 3.1-1-68					6,735					6,735
45 IAC 3.1-1-74							(85)			(85)
45 IAC 3.1-1-79			(1,000)							(1,000)
45 IAC 3.1-1-8	414,397	(7,011,674)	4,719,073	2,243,903	3,062,940	(532)	14,788	2,227,989	1,068,097	6,738,981
45 IAC 3.1-1-9	(299,897)	6,392,796	(450,645)	180,462	(326,675)	(705)	650	(43,306)		5,452,680
45 IAC 3.1-1-94	603	420,746	82,611	19,461	(53,004)			(112,227)		358,190
45 IAC 3.1-1-97	160	11,634	8,248	176,093	16,197		27,011	45,084		284,427
45 IAC 3.1-2-1				21,233				16,000		37,233
45 IAC 3.1-2-2					(36,601)					(36,601)
45 IAC 3.1-2-4			14,697							14,697
45 IAC 3.1-3-1		446		2,568	146			769		3,929
45 IAC 3.1-3-2				375				2,145		2,520
45 IAC 3.1-3-3								2,600		2,600
45 IAC 3.1-3-8				540						540
Grand Total	759,356	(47,314)	5,204,602	2,864,132	8,505,967	180,916	172,931	5,804,998	1,068,097	24,513,685

*See accompanying text for detail of SIC categories

Adjusted Gross Income Tax Violations by Industry Group



Adjusted Gross Income Tax Assessed by Industry Group

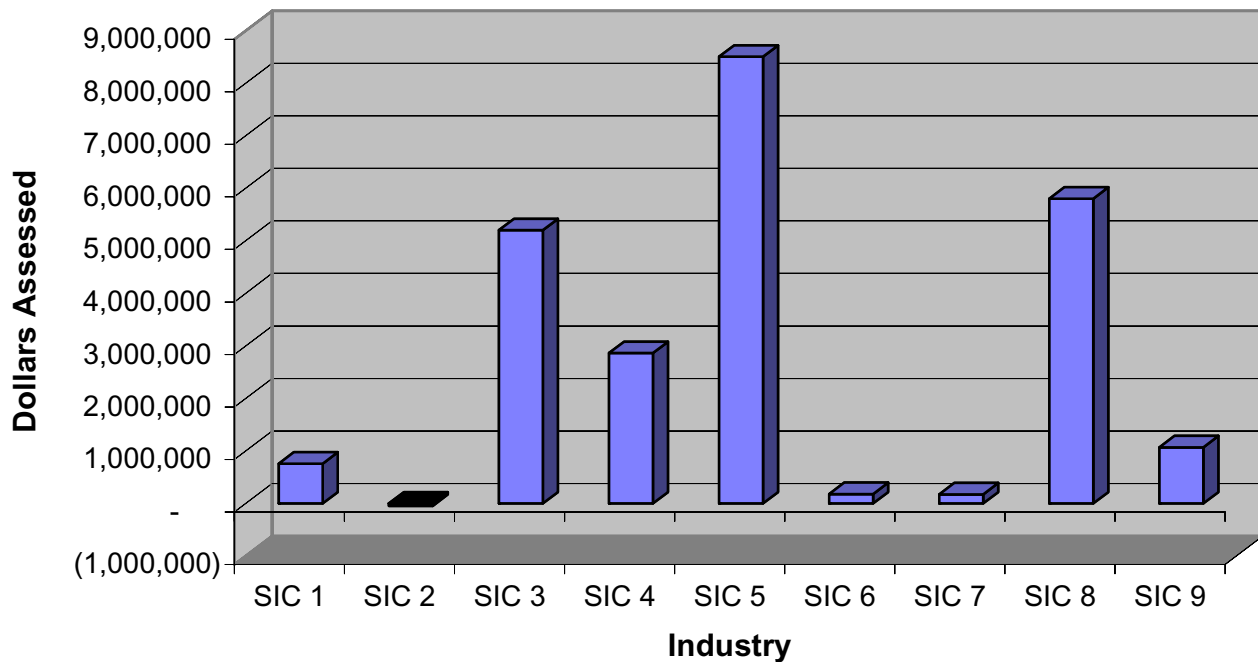
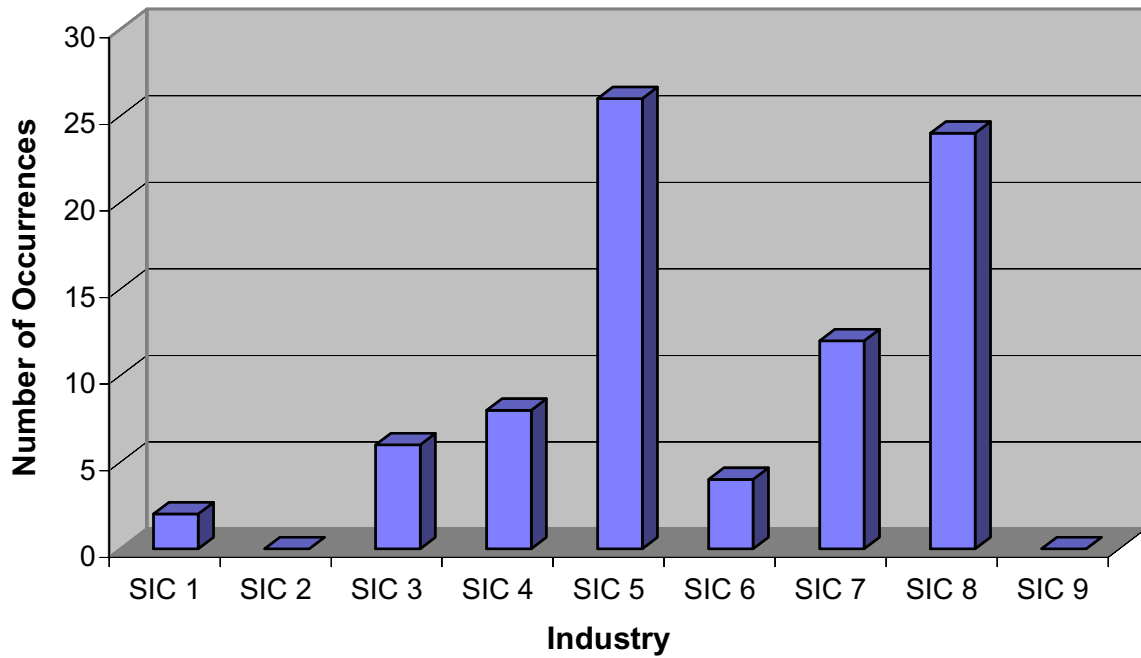


EXHIBIT F
Dollars Assessed for Miscellaneous Violations by Industrial Code

Sum of Results	SIC*							
Citation	1	3	4	5	6	7	8	Grand Total
45 IAC 15-11-3				94,032			1,799	95,831
45 IAC 15-4-1			1,108	(14,965)	(33,869)		342	(47,384)
45 IAC 15-5-1			9,770			6,430	16,871	33,071
45 IAC 15-5-7	(121)	(77,436)					(178,179)	(255,736)
45 IAC 15-9-1		1,830			263			2,093
45 IAC 15-9-2		19,782		6,359	317,800		(138,816)	205,125
45 IAC 17-2-6				590,626			55,324	645,950
45 IAC 17-3-1				21,173				21,173
45 IAC 17-3-10				(364,628)				(364,628)
45 IAC 17-3-5				1,152,181				1,152,181
45 IAC 17-3-6				800				800
45 IAC 17-3-9				19,344				19,344
45 IAC 18-2-3						45,125	16,000	61,125
IC 13-20-11-7							72	72
IC 13-20-13-7			946					946
IC 13-7-23-10.3			289				110	399
IC 16-3-2		228,451						228,451
IC 3-2-3.1							3,443	3,443
IC 4-32-11-3							2,500	2,500
IC 6-2.3-1-4				(513)				(513)
IC 6-2.3-1-9				4,378				4,378
IC 6-2.3-2	2,738							2,738
IC 6-2.3-3-4				(103)				(103)
IC 6-2.3-3-5				(3,563)				(3,563)
IC 6-5.5-1-6				34,519				34,519
IC 6-5.5-2-1							11,781,300	11,781,300
IC 6-5.5-2-4				(580,585)				(580,585)
IC 6-5.5-2-8				398,238				398,238
IC 6-5.5-4-2				141,316				141,316
IC 6-5.5-5.1							3,823,697	3,823,697
IC 6-6-9-7				364				364
IC 6-8.1-5-1			2,342					2,342
IC 6-9-12-3						688		688
IC 6-9-12-7						676		676
IC 6-9-18-3						934		934
IC 6-9-21-4							1,124	1,124
IC 6-9-27						6,073		6,073
IC 6-9-8-2						196,943		196,943
IC 9-29-6-2							1,725	1,725
Grand Total	2,617	172,627	14,455	1,498,973	284,194	256,869	15,387,312	17,617,047

*See accompanying text for detail of SIC categories

Misc. Code Violations by Industry Group



Misc. Code Dollars Assessed by Industry Code

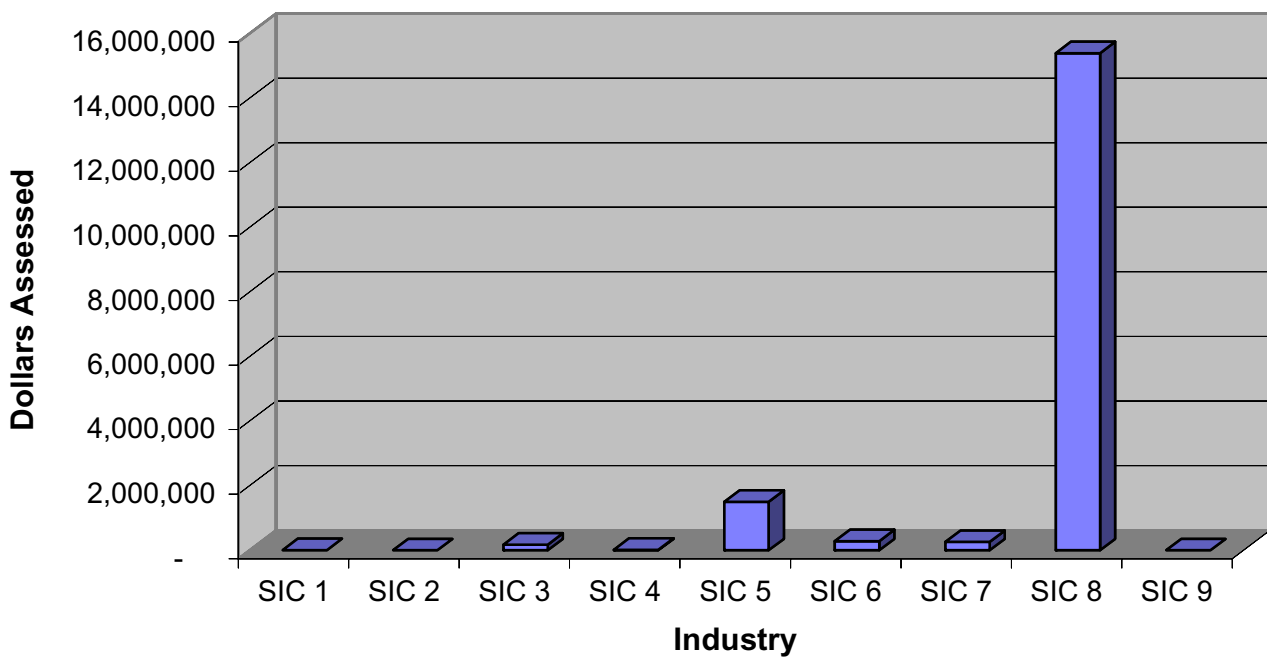
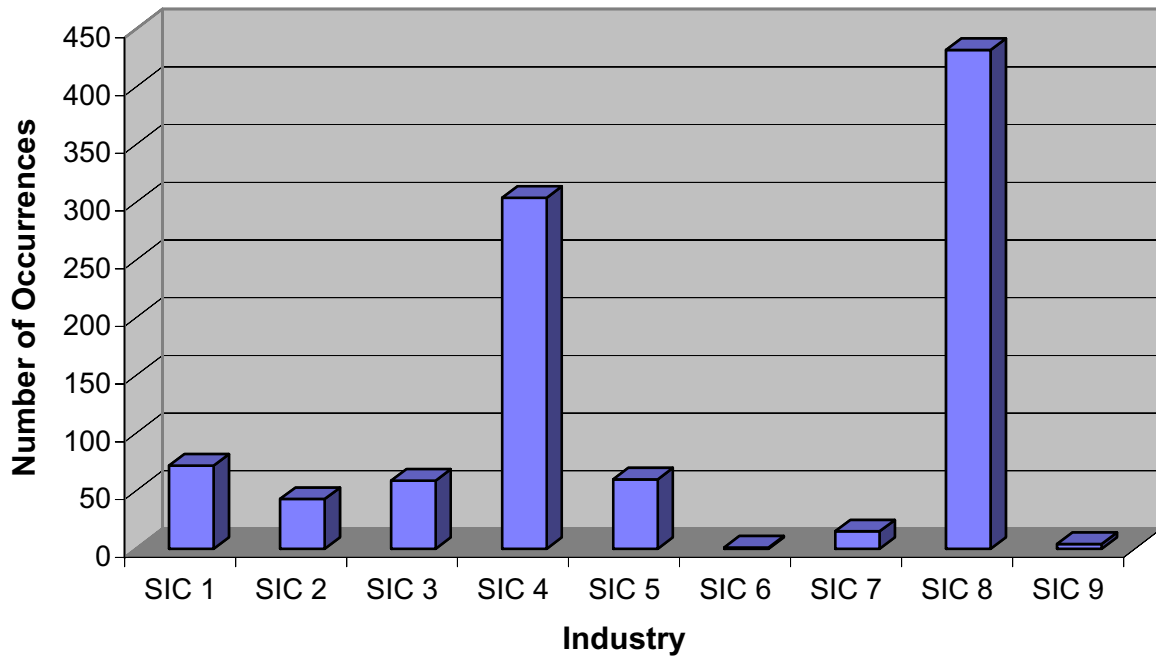


EXHIBIT G
Dollars Assessed in Code Article Citations by Industrial Code
Special Tax Audits

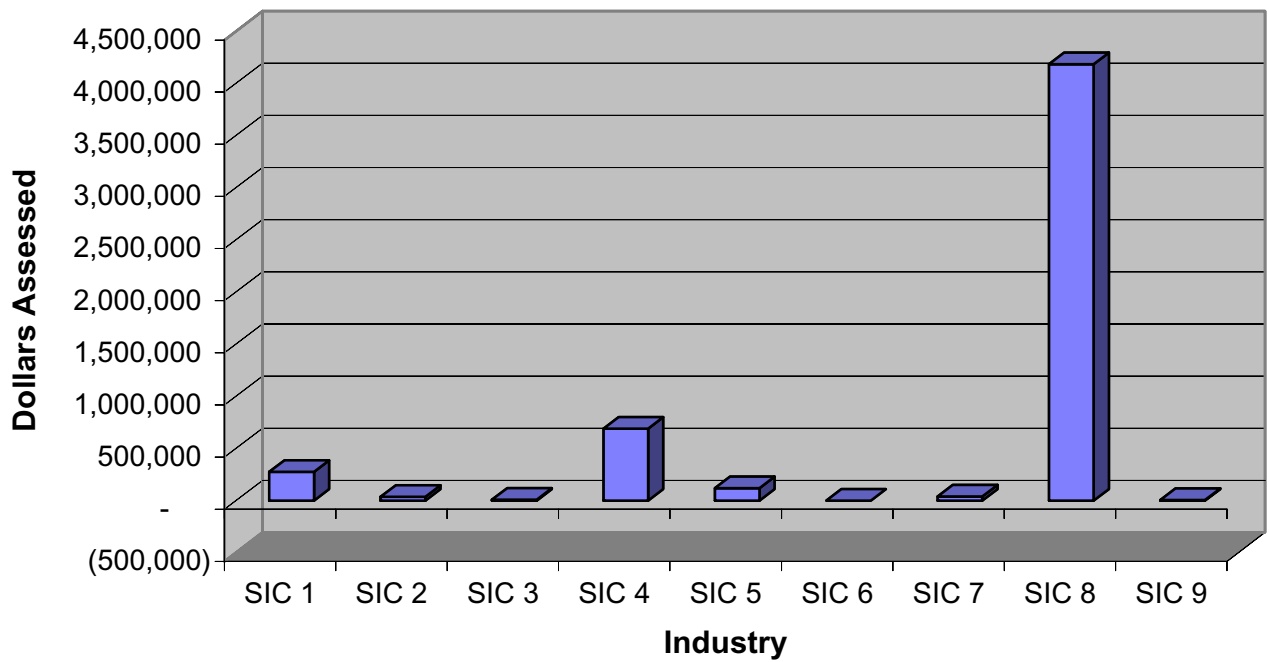
Sum of Results	SIC*									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
A550				44						44
IC 16-44-2-18				4,394				10,146		14,540
IC 6-6-1.1-201				13,176				243,802		256,978
IC 6-6-1.1-301	1,113			22,082						23,195
IC 6-6-2.5-13								66,686		66,686
IC 6-6-2.5-28	14,567			(4,158)				3,552,845		3,563,254
IC 6-6-2.5-30								(10,130)		(10,130)
IC 6-6-2.5-37								37,003		37,003
IC 6-6-2.5-64								65,831		65,831
IC 6-6-4.1-23			67							67
IC 6-6-4.1-4	(5,707)		4,541	29,764	(13,482)		37,615	155,472		208,203
IC 6-6-4.1-6	3,612		(1,458)	(4,677)	9,351		1,461	(87,251)		(78,962)
IC 6-6-4.1-9								812		812
IC 6-6-5.5-8	1,367	414	867	70,640	711		835	10,904	7	85,745
IC 6-7-1-19	215,812				20,973			23,289		260,074
IC 6-7-2-7	37,487			4,629	91,340			6,148		139,604
IC 7.1-4-2-1					801			4,132		4,933
IC 8-2.1-20.7		10		190						200
IC 8-2.1-20-7	0	990		3,600			170	960		5,720
IC 8-2.1-22-33				80						80
IC 8-2.1-22-39				20				270		290
IRP ArtiCle II-204	20		1,034	14				3,822		4,890
IRP ArtiCle XV-1502	2,354	951	820	154,983	2,496			22,419	15	184,038
IRP ArtiCle XVII-1700	79	(359)	140	896	(146)	(5)	1,906	(2,530)		(19)
R1000	(454)	1,121	(1,017)	204,279	8,045		(14,239)	(25,463)	(9,324)	162,948
R1200				23,046				8,847		31,893
R800	3,383	31,753	4,352	167,333	(2,960)		11,645	96,669	15,679	327,854
Grand Total	273,633	34,880	9,346	690,335	117,129	(5)	39,393	4,184,683	6,377	5,355,771

*See accompanying text for detail of SIC categories

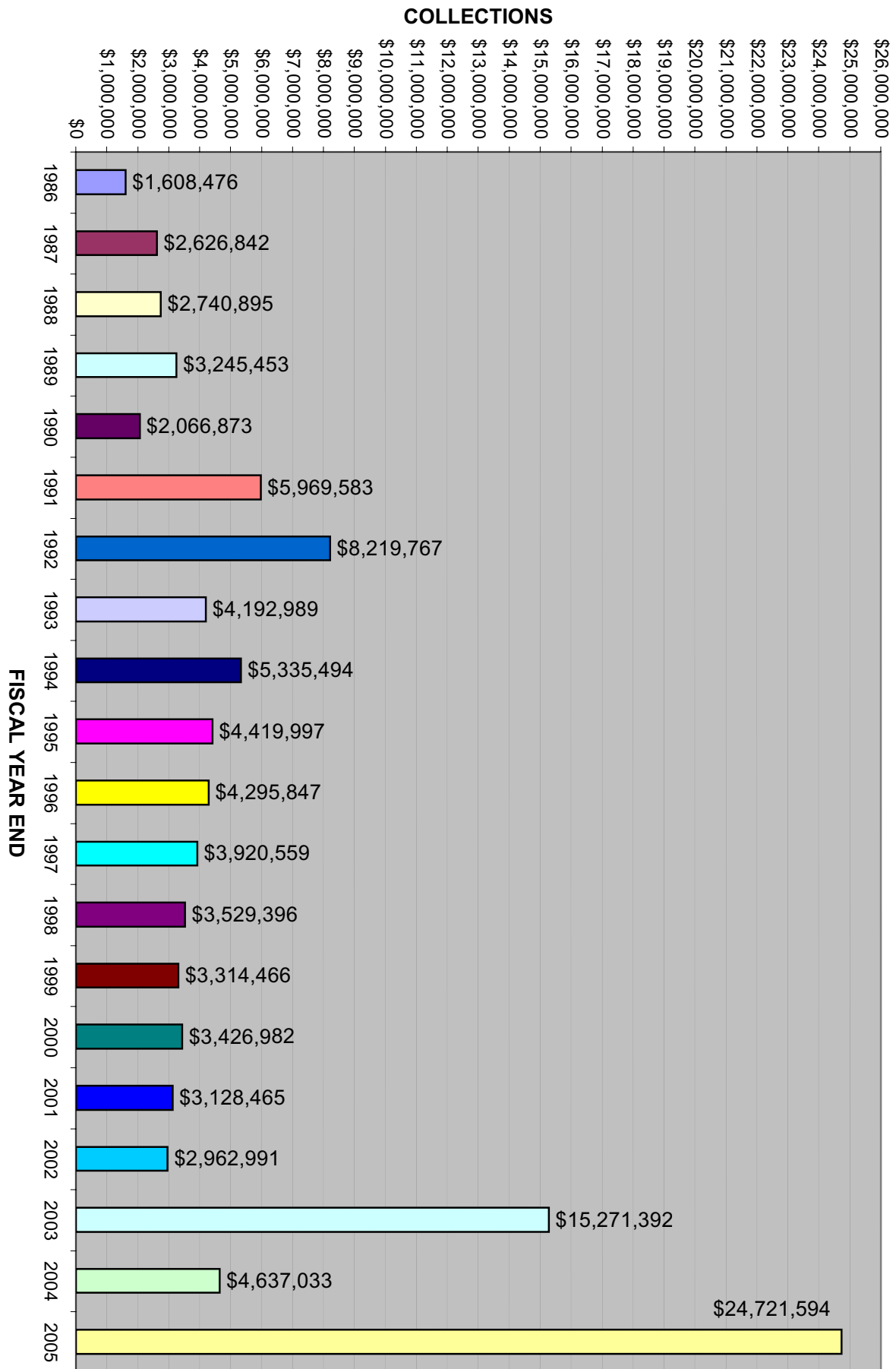
Special Tax Violations by Industry Group



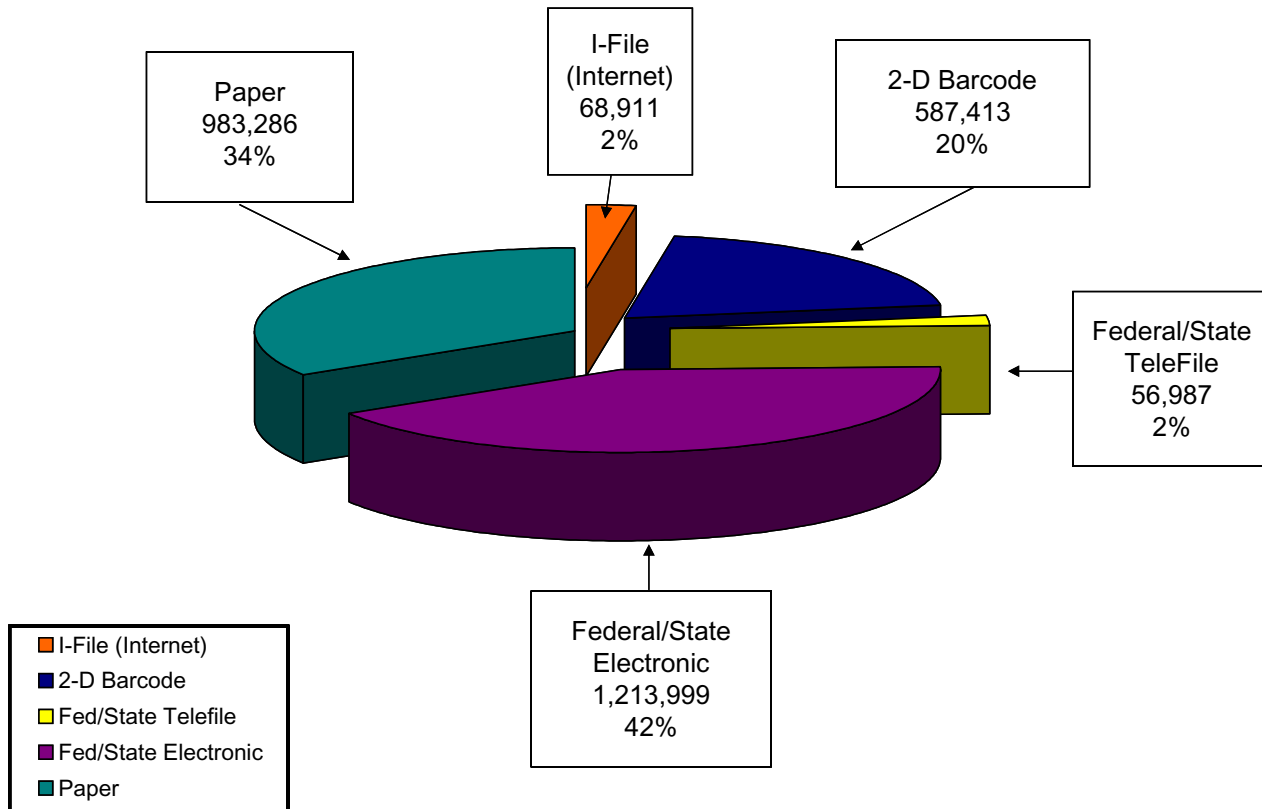
Special Tax Assessed by Industry Group



BANKRUPTCY 20-YEAR COMPARISON



2004 INDIANA INDIVIDUAL INCOME TAX BREAKDOWN BY FILING METHOD



2004 Indiana Individual Income Tax Filing Numbers and Percentages		
I-File (Internet)	68,911	2%
2-D Barcode	587,413	20%
Fed/State Telefile	56,987	2%
Fed/State Electronic	1,213,999	42%
Paper	983,286	34%
Grand Total	2,910,596	

CODE CITATIONS GOVERNING THIS PUBLICATION

IC 6-8.1-3-2.5 -- Employee evaluations based on revenue production or quotas

Sec. 2.5. The Department may not:

- (1) include the amount of revenue collected or tax liability assessed in the evaluation of an employee; or
- (2) impose or suggest production quotas or goals for employees based on the number of cases closed.

As added by P.L.332-1989(ss), SEC.22.

IC 6-8.1-3-2.6 -- Certification of compliance with employee evaluation criteria

Sec. 2.6. The commissioner shall certify in the report submitted under IC 6-8.1-14-3 that the Department is in compliance with section 2.5 of this chapter.

As added by P.L.332-1989(ss), SEC.23.

IC 6-8.1-7-2 -- Statistical studies derived from tax returns; disclosure of results; information as to individuals filing returns

Sec. 2. (a) The Department may compile statistical studies from information derived from state tax returns and may disclose the results of those studies. In addition, the Department may disclose statistical information from the state tax returns to the governor, the general assembly, or another state agency, for the purpose of allowing those governmental entities to conduct their own statistical studies.

(b) Notwithstanding subsection (a), the Department may not disclose the results of any study and may not disclose any statistical information if, as a result of that disclosure:

- (1) the identity of a taxpayer who filed a return would be disclosed;
- (2) the identity of a taxpayer could reasonably be associated with any of the information which was derived from his return for use in a statistical study; or
- (3) the ability of the Department to obtain information from federal tax returns would, in the Department's judgment, be jeopardized in any manner.

(c) Subject to the rules and regulations of the Department, a person may request information as to whether an individual filed an income tax return pursuant to the Indiana income tax laws for a particular taxable year. However, the Department may not disclose that information with respect to any taxable year until the close of the calendar year following the year in which the return should have been filed. As soon as practicable after the close of that calendar year, the Department shall inform the person making the request whether the return was filed.

As added by Acts 1980, P.L.61, SEC.1.

IC 6-8.1-14-3 -- Annual report

Sec. 3. The Department shall submit a report to the governor and legislative council no later than October 1 of each year. A report submitted under this section to the legislative council must be in an electronic format under IC 5-14-6.

As added by P.L.332-1989(ss), SEC.39. Amended by P.L.28-2004, SEC.68.

IC 6-8.1-14-4 -- Contents of report

Sec. 4. The report prepared under section 3 of this chapter must include the following:

- (1) Areas of recurring taxpayer noncompliance.
- (2) A statistical study under IC 6-8.1-7-2 from the Department audit process, including the following:
 - (A) The statute or rule violated by the taxpayers.
 - (B) The amount of tax involved.
 - (C) The industry or business of the taxpayers.
 - (D) The number of years in the audit period.
 - (E) The use of professional tax preparation assistance by the taxpayers.
 - (F) The filing of appropriate tax returns by the taxpayers.
- (3) Recommendations for improving taxpayer compliance and Department administration by the following:
 - (A) The adoption of new or amended statutes and rules.
 - (B) Improvements in the training of Department employees.
 - (C) Improvements in taxpayer communication and education.
 - (D) Increases in the enforcement capability of the Department.
- (4) The certification required under IC 6-8.1-3-2.6.

As added by P.L.332-1989(ss), SEC.39.

NOTES